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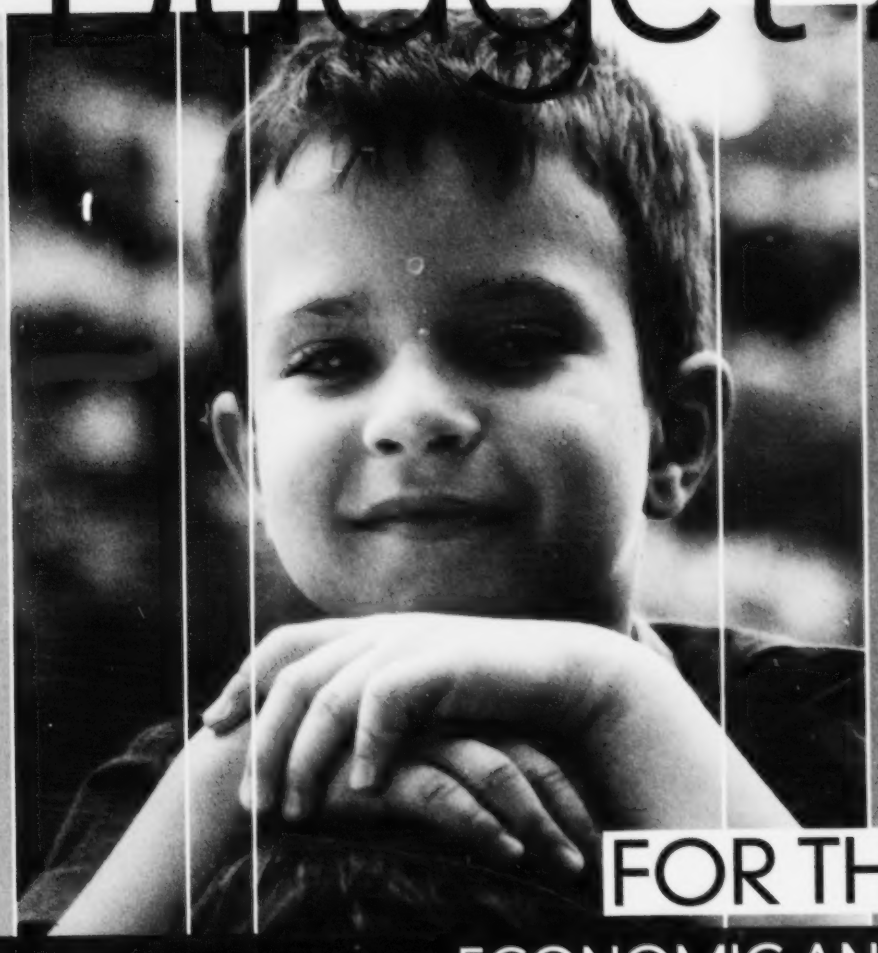

CHOICES FOR THE FUTURE

ECONOMIC AND BUDGETARY ACTION PLAN

Québec

Budget 2010 11

CHOICES FOR THE FUTURE

ECONOMIC AND BUDGETARY ACTION PLAN

Finances Québec

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INTRODUCTION

The extensive consultation process initiated by the Minister of Finance to prepare the budget confirmed the scope of the three challenges facing Québec.

— We must meet the **challenge of the recovery**, after a deep recession that has affected the entire planet.

— We must deal with the **challenge of public finances**, by continuing with the March 2009 Plan to return to budget balance.

— We are confronted by the **challenge of the future** and of what the **Québec of the next twenty years** will look like, as laid out by the Premier at the economic conference in Lévis, last January.

The 2010-2011 Budget is one of action that the government is taking to respond appropriately to these three challenges.

Accordingly, the Minister of Finance is releasing a far-reaching action plan that includes:

— concrete steps to **support the economy**;

— a gradual and balanced approach to **meet the challenge of public finances** and thus protect our values;

— an ambitious initiative to **build Québec for the next twenty years**.

In this action plan, the government is confirming and demonstrating the priority it puts on the economy within its overall initiatives and its vision for the future.

PART ONE: CONCRETE STEPS TO CONSOLIDATE THE RECOVERY

Québec was less affected by the economic recession than its main partners, largely because of the action plan the government implemented in March 2009.

It is now time to consolidate the recovery and put Québec back on the path to prosperity by:

— continuing the implementation of last year's action plan;

— funding modern, high-quality infrastructures.

1. CONTINUATION OF THE MARCH 2009 GOVERNMENT ACTION PLAN

Following the financial crisis of 2008 and at the first signs of economic slowdown, the government intervened under an action plan calling for an injection of $15 billion in the economy.

Thanks to the government's quick initiatives, Québec was less affected by the recession than its main partners, i.e. the United States and Ontario.

Today, the recession is behind us and the economy has resumed growing.

— The measures of the action plan implemented in March 2009 will continue until the end of 2010, thus supporting the economy in the short term.

— The government is completing this action plan with three targeted initiatives focusing on Montréal, the forest industry and Gaspésie–Îles-de-la-Madeleine.

1.1 The action plan to support jobs and prepare for economic recovery: $15 billion in 2009 and 2010

As soon as it was implemented, the March 2009 plan to support jobs and prepare for economic recovery had a major impact on the economy. Under this plan, the efforts the government has made to support businesses and individuals will continue in 2010 at the same pace as last year.

❑ The March 2009 action plan

The measures announced in the March 2009 action plan were divided into five groups:

- additional immediate actions to support businesses and workers:
  - increase the cash resources and capitalization of businesses – notably through the Renfort program and the $1-billion increase in the capital of the Société générale de financement (SGF);
  - support workers in their efforts to obtain training and search for employment – with the Employment Pact Plus;
  - stimulate the home renovation sector – with a refundable tax credit for renovation and home improvements;
  - mitigate the effects of the economic situation on pension plans;
  - support for forest development;
  - improve tax assistance for the cultural sector.
- investments in public infrastructure:
  - accelerate and increase investments under the 2008-2013 Québec Infrastructures Plan whose total investment will reach $42 billion over five years.
- support for households, especially families and the elderly:
  - support income and protect purchasing power;
  - build community housing and renovate social housing.
- reduce the corporate tax burden to stimulate investment:
  - continue the elimination of the tax on capital by January 1, 2011;
  - accelerate capital cost allowance for investments in manufacturing and processing equipment, as well as in computer hardware.

— prepare Québec for economic recovery:

  — support our technology companies – in particular through the creation of Teralys Capital, with $825 million in capital to finance venture capital funds, and the creation of three seed funds totalling $125 million;

  — develop northern Québec;

  — stimulate natural gas exploration in Québec;

  — protect the environment and focus on environmental technologies.

❑ An injection of $15 billion in the economy in 2009 and 2010

Overall, the March 2009 action plan will enable the injection of a total of $15 billion in Québec's economy in 2009 and 2010:

— $4.0 billion to fund additional immediate initiatives to support businesses and workers;

— $8.2 billion to improve public infrastructures;

— $845 million to support households;

— $1.1 billion to reduce the tax burden of businesses;

— $846 million to prepare Québec for economic recovery.

TABLE 1

The government's action plan: cash resources injected in Québec's economy in 2009 and 2010[1]

(millions of dollars)

	Amount committed in 2009	Amount stipulated in 2010	Total over two years
1. Additional immediate actions to support businesses and workers	1 896	2 131	4 027
2. Invest in public infrastructure	3 952	4 279	8 230
3. Support households, in particular families and the elderly	365	480	845
4. Reduce the corporate tax burden to stimulate investment	330	729	1 059
5. Prepare Québec for economic recovery	261	585	846
TOTAL	**6 803**	**8 204**	**15 008**

Note: Since figures are rounded, they may not add up to the totals shown.

1 Including the cash resources associated with the measures described in Information Bulletins 2009-4, 2009-8 and 2010-3 and the measures of the 2010-2011 Budget designed to cement the recovery.

❑ The Employment Pact and the Employment Pact Plus

The Employment Pact and the Employment Pact Plus alone will generate investments of $1.5 billion over three years.

These investments were intended to respond quickly to the short-term challenges raised by the economic situation and, in the longer term, by the accelerated aging of Québec's population.

At the end of the three years, the Employment Pact and the Employment Pact Plus will have marshalled significant resources for the development of manpower and employment in Québec:

— $623 million to develop human potential (Pillar I);

— $118 million to value work (Pillar II);

— $764 million for manpower training (Pillar III).

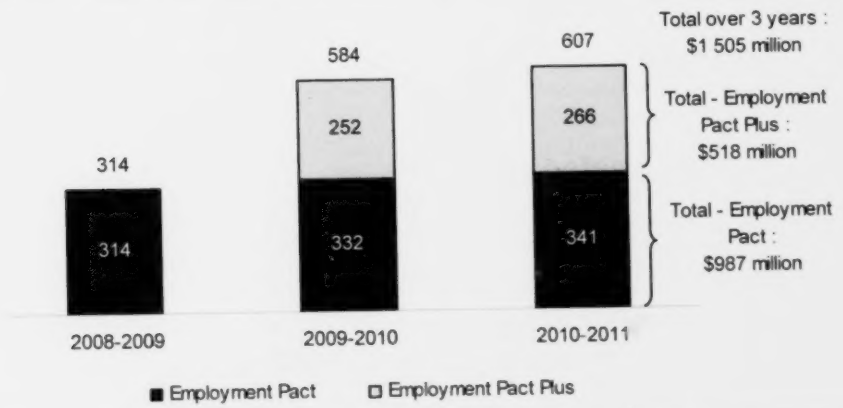
In 2010-2011, the government and businesses are expected to invest more than $600 million under the Employment Pact and the Employment Pact Plus.

— These investments will continue to help all workers and businesses in Québec affected by the economic situation. In addition, they will help prepare Québec's labour market to benefit fully from economic recovery.

— The additional investments stipulated in the 2010-2011 Budget, arising from the Plan Emploi Métropole will, in particular, maximize the effectiveness of the measures of the Employment Pact and the Employment Pact Plus in the Montréal region.

CHART 1

Total investments stipulated under the Employment Pact and the Employment Pact Plus
(millions of dollars)



❑ The Renfort program: cash resources of $2 billion for businesses

Since it was set up in the fall of 2008, the Renfort program has been very successful with businesses. As at March 5, 2010, more than 800 businesses had applied for financing for a total of close to $1.1 billion.

— 575 files had been authorized for a total of $750 million.

— 226 files were being analyzed for a total amount of $347 million.

These results show that the program meets an important need among businesses to fund their operations and investment projects.

By the end of 2010, businesses will receive up to $900 million, in addition to the applications already sent to Investissement Québec.

❑ Major acceleration of investments to support the economy

With the adoption of the first five-year investment plan in 2007, the government's investments rose substantially, from $4.2 billion in 2006-2007 to $5.0 billion in 2007-2008 and $6.6 billion in 2008-2009. They will reach $8.9 billion in 2009-2010 and $9.1 billion in 2010-2011.

This acceleration of investments was undertaken both to bridge the infrastructure maintenance gap and to support Québec's economy during the recession.

1.2 New targeted initiatives

The government is completing the action plan initiated in the fall of 2008 with three targeted initiatives:

— to cement the recovery in the Montréal region, where a large part of the job losses Québec suffered during the recession are concentrated;

— to support the forest industry, whose problems affect the prosperity of most regions;

— to offer adapted support for the region of Gaspésie–Îles-de-la-Madeleine and enable it to bridge the economic gap with the other regions of Québec.

These measures represent support of $300 million over the next four fiscal years.

TABLE 2

Cost to the government of the measures to continue the action plan
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	Total
Plan Emploi Métropole	10.0	10.0	—	—	**20.0**
Support for the forest industry	50.5	100.0	87.0	25.0	**262.5**
Development strategy for Gaspésie–Îles-de-la-Madeleine	6.0	6.0	6.0	—	**18.0**
TOTAL	**66.5**	**116.0**	**93.0**	**25.0**	**300.5**

1.2.1 The Plan Emploi Métropole

Compared with other regions of Québec, the Montréal region has experienced a number of difficulties.

In 2009, employment in the Montréal region fell by roughly 4% compared with a decline of 1% for Québec as a whole. That is why the government plans to act and thus accelerate the recovery of one of the engines of our economy.

To revive the labour market in the Montréal region, the 2010-2011 Budget stipulates investments of $30 million over two years under the Plan Emploi Métropole, of which:

— $20 million will be funded by the Québec government;

— $10 million will be funded by the Commission des partenaires du marché du travail.

TABLE 3

Investments under the Plan Emploi Métropole
(millions of dollars)

	2010-2011	2011-2012	Total
Québec government	10	10	**20**
Commission des partenaires du marché du travail	10	—	**10**
TOTAL	**20**	**10**	**30**

The labour market in the Montréal region

The Montréal region is Québec's economic engine. In 2009, the Montréal region's labour market accounted for roughly:

- 24% of jobs in Québec;
- 26% of the jobs in Québec in the service sector, which represented 84% of the jobs in the Montréal region.

In addition, the Montréal region generates nearly 35% of Québec's GDP.

During 2009, in the midst of the economic slowdown, the Montréal region's labour market suffered more than that of other regions of Québec.

- In 2009, 37 900 jobs were lost in the Montréal region, a drop of 4.0%. In addition, the region's unemployment rate rose from 8.7% to 11.1%, a jump of 2.4 percentage points.
- In Québec as a whole, for the same period, job losses amounted to 37 500, a decline of 1%. In addition, the unemployment rate rose by less in Québec as a whole than in the Montréal region, which suffered a rise of 1.3 percentage points.

Portrait of the labour market – 2007 to 2009

	2007	2008	2009	Difference 2007 to 2008	Difference 2008 to 2009
Jobs					
Montréal	950 000	956 200	918 300	6 200 (0.7%)	– 37 900 (– 4.0%)
Rest of Québec	2 901 700	2 925 500	2 925 900	23 800 (0.8%)	400 (0.0%)
Province of Québec	3 851 700	3 881 700	3 844 200	30 000 (0.8%)	– 37 500 (– 1.0%)
Unemployment rate					
Montréal	8.5%	8.7%	11.1%	0.2%	2.4%
Rest of Québec	6.7%	6.8%	7.6%	0.1%	0.8%
Province of Québec	7.2%	7.2%	8.5%	0.0%	1.3%

Sources: Institut de la Statistique du Québec and Statistics Canada.

❑ Three areas of intervention and six measures adapted to Montréal to revive the labour market

The Plan Emploi Métropole includes six measures, divided among three areas of intervention, to respond to Montréal's economic and social situation. These measures will:

— develop workforce skills, in particular through training and innovation in human resources management ($11.5 million over two years);

— provide support to job seekers, in particular victims of industrial reconversions, and immigrants, in order to facilitate participation in the labour market ($8.5 million over two years);

— support investment and entrepreneurship in order to promote the development of certain sectors.

These new measures will complement those being applied in the Employment Pact and the Employment Pact Plus, to boost the effectiveness of these measures in the Montréal region.

The main features of each of these three components, whose details will be released shortly by the Minister of Employment and Social Solidarity, are described below.

TABLE 4

Plan Emploi Métropole – Cost to the government of the measures provided for in the 2010–2011 Budget

(millions of dollars)

	2010-2011	2011-2012	Total over 2 years	Population affected
Area 1: Develop workforce skills				
1) Better integrate the service offering to businesses	0.75	0.75	**1.5**	2 000 businesses
2) Additional support for training activities for businesses threatened by economic slowdown[1]	5.0	5.0	**10.0**	1 200 interventions and 15 000 employees
Subtotal	**5.75**	**5.75**	**11.5**	
Area 2: Support job seekers				
3) Set up placement teams to help match job seekers and Montréal businesses	2.25	2.25	**4.5**	9 000 people
4) Set up a targeted approach for new arrivals	1.5	1.5	**3.0**	1 700 immigrants
5) Support immigrants looking for work in the regions	0.5	0.5	**1.0**	200 immigrants
Subtotal	**4.25**	**4.25**	**8.5**	
Area 3: Promote investment and entrepreneurship				
6) Support investment projects through worker training	—	—	—	20 businesses
TOTAL	**10.0**	**10.0**	**20.0**	

1 Investments do not reflect funding from the Commission des partenaires du marché du travail of $10 million in 2010-2011. However, the number of interventions and the number of employees affected do reflect this funding.

1.2.1.1 Develop workforce skills

❑ Better integrate the service offering to businesses

The existing resources for help and support to businesses provided by Emploi-Québec, by the Ministère du Développement économique, de l'Innovation et de l'Exportation, the Ministère de l'Immigration et des Communautés culturelles and by the education network are significant. They assist a large number of businesses.

However, in some cases, coordination of these resources could be improved to maximize their results. The 2010-2011 Budget therefore includes investments of $1.5 million to:

— develop an intervention strategy adapted to the features of businesses in Montréal;

— set up a service offering that is better coordinated and a strategy to promote these services.

These investments will help offer integrated service to 2 000 businesses in Montréal.

❑ Additional support for training activities for businesses threatened by economic slowdown

Currently, the Program to support enterprises that risk being affected by economic slowdown (SERRÉ) enables businesses threatened by a slowdown in their activities to receive a subsidy of up to $100 000 for expenses incurred for training. The program is due to end March 31, 2010. It will have assisted businesses facing a decline in their activities and thus helped avoid layoffs.

To reflect the specific context of the Montréal region, the 2010-2011 Budget includes a new program specific to the region with funding of $20 million over two years to financially support the training activities of businesses, of which:

— $10 million will be invested by the Commission des partenaires du marché du travail in 2010-2011;

— $10 million will be invested by the government over two years, i.e. $5 million in each of 2010-2011 and 2011-2012.

The financial support will be conditional on a commitment from the business to structure its training activities. It will be based on the parameters of the SERRÉ program.

With these investments, it will be possible to make 1 200 more interventions with businesses and assist 15 000 employees in the Montréal region.

Intervention regarding training and human resources management since 2008

Since April 2008, the Québec government, working with the Commission des partenaires du marché du travail, has implemented measures to deal with the economic situation, in particular with the assistance of the additional resources stipulated in the Employment Pact and the Employment Pact Plus.

The interventions of Emploi-Québec in support of human resources management and employee training have, in Montréal's five regions, increased:

- the number of businesses served by 20%;
- the number of training interventions by 64%.

The above figures do not include the enterprises in the Montréal region that have made use of the Program to support enterprises that risk being affected by economic slowdown.

- Since December 2008, the program has supported 528 training projects, helping develop skills and keep more than 13 000 employees working.
- Under the Plan Emploi Métropole, 1 200 additional interventions will be made in businesses, helping 15 000 employees in the Montréal region.

1.2.1.2 Support job seekers

❑ Set up placement teams to help match job seekers and Montréal businesses

Investments of $4.5 million will be made over two years to help the unemployed find jobs and thus increase labour market participation. These investments will seek to set up placement teams to help match job seekers with businesses.

With these resources, Emploi-Québec will be able to provide special assistance to the unemployed to accelerate their entry into employment. This measure is expected to assist 9 000 people.

❑ Set up a targeted approach for new arrivals

Montréal is the main point of arrival for immigrants to Québec. In some cases, these people may have difficulties entering the labour market.

The Plan Emploi Métropole stipulates investments of $3 million over two years to increase their participation in the labour market.

Through these investments, it will be possible to:

— coordinate the range of services for new arrivals more closely, for example, by pooling the resources of local employment centres and of the Ministère de l'Immigration et des Communautés culturelles;

— improving the intervention resources already available to the Ministère de l'Immigration et des Communautés culturelles and Emploi-Québec, to maximize their effectiveness.

Immigrants currently enjoy services such as online placement, employment integration projects and recognition of prior learning and competencies. Short-term trial on-the-job training sessions will be offered to new arrivals.

These new investments will help roughly 1 700 immigrants.

❑ Support immigrants looking for work in the regions

As part of the immigration regionalization strategy, the ministère de l'Immigration et des Communautés culturelles, working with Emploi-Québec, has developed the Passerelle pour l'emploi en région project.

The chief objective of this project is to help immigrants in Montréal who so wish, to find a job in the regions.

The 2010-2011 Budget includes additional investments of $1 million over the next two years to increase the number of persons receiving assistance under the Passerelle pour l'emploi en région program.

These investments will help 200 more immigrants settle in the regions over two years.

1.2.1.3 Promote investment and entrepreneurship

❑ Support investment projects through worker training

To support the execution of new investment projects in the Montréal region, the 2010-2011 Budget stipulates that Emploi-Québec will offer financial support to businesses in Montréal for employee training.

The financing will support job creation and adaptation of employed workers through qualifying training, where the business makes significant investments in fixed assets and equipment (business growth or modernization projects).

Intervention in Montréal in terms of worker training for large-scale projects since April 1, 2009

For Emploi-Québec and the Commission des partenaires du marché du travail, large-scale economic projects are the chief means of making a significant contribution to labour demand.

- The financing under this measure will support job creation and adaptation of employed workers through qualifying training, where the business makes significant investments in fixed assets and equipment.
- In metropolitan Montréal, 21 large-scale economic projects, representing total investments exceeding $60 million, have been approved by the commission since April 1, 2009.
- The contribution of Emploi-Québec to these projects, amounting to almost $29 million spread over two to three years, will help create 1 700 jobs and maintain 10 000 others.

1.2.2 Support for the forest industry

The forest industry as a whole currently provides nearly 70 000 jobs for Quebecers.

— The value of forest industry production has fallen nearly 21% since 2005.

— This downturn in economic activity shed 17 400 jobs and fuelled a nearly 21% decline in forest exports, most of which go to the United States.

— Forestry is a key economic sector for several resource regions. Over the last four years, regional economies have been battered by jobs losses in the timber harvesting (– 26%), wood products (– 25%) and pulp and paper (– 11%) sectors.

Since 2005-2006, the government has implemented a number of initiatives under the plan to support the forest sector. Funding for the plan, which now exceeds $1.8 billion, has been nearly fully committed.

To continue these initiatives and promote diversification of the forest product supply, the government is injecting another $310.5 million over four years.

This financial assistance will enable forest companies to benefit from the economic recovery and better position themselves in markets.

The government is stepping up its efforts in three directions. It intends to:

— strengthen assistance measures to protect and regenerate forests;

— invest in a catalyst project to set an example in the necessary diversification for pulp and paper companies;

— extend the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas.

TABLE 5

Support measures for the forest industry

(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	Total
Support for the forest industry					
Forest protection and regeneration					
- Seedling production	25.6	—	—	—	**25.6**
- Silvicultural Investment Program – south of the 49th parallel	14.9	—	—	—	**14.9**
- Forest protection	10.0	—	—	—	**10.0**
Tax credit for forest roads	—	100.0	87.0	25.0	**212.0**
Subtotal	**50.5**	**100.0**	**87.0**	**25.0**	**262.5**
Other measures in support of the industry					
Reforestation of Northern Québec[1]					
- Seedling production	2.0	4.0	4.0	—	**10.0**
- Silvicultural Investment Program – north of the 49th parallel	8.0	—	—	—	**8.0**
Catalyst project[2]					
- Green chemistry	10.0	10.0	10.0	—	**30.0**
Subtotal	**20.0**	**14.0**	**14.0**	**—**	**48.0**
TOTAL	**70.5**	**114.0**	**101.0**	**25.0**	**310.5**

1 Measures announced in the context of initiatives to deploy the Northern Plan.
2 Measure announced in the context of initiatives to invest in a creative and innovative economy.

❑ Forest protection and regeneration

■ Financing seedling production

The production of seedlings to regenerate sites damaged by fire, disease or insects is one of the first stages in the implementation of a silvicultural intervention plan aimed at full reforestation.

Given the importance of this production stage and the difficult economic situation, the government has financed the production of seedlings since January 1, 2007.

Since these continue to be tough economic times for forest companies, the government is announcing the extension of this measure for 2010-2011 with funding of $25.6 million to ensure reforestation activities in the coming years.

■ Extension of the Silvicultural Investment Program

In 2009, nearly 130 million seedlings were planted in Québec forests, notably through the Silvicultural Investment Program (SIP) and support from the federal government.

— In May 2009, the Québec and federal governments entered into an agreement to create and maintain jobs in communities hit hard by the forest crisis.

— To that end, the governments agreed to carry out $200 million worth of intensive silvicultural treatments funded equally by the parties.

To ensure that silvicultural work continues and to benefit from the leverage effect provided by the federal government, the SIP will be extended by one year. The measure will help maintain the know-how of regional silvicultural businesses.

The government will grant $14.9 million in 2010-2011 for silvicultural work in the regions south of the 49th parallel. Continuing silvicultural efforts is an investment in future generations.

■ Forest protection

On average, forest fires affect the equivalent of 94 000 hectares a year, wiping out silvicultural investments and vacation infrastructure in the affected regions.

To protect these investments and ensure adequate protection of forest lands, a forest management strategy was introduced as part of the support plan for the forest sector.

— Given that this component of the support plan ends this year and given the importance of limiting the loss of tree cover due to forest fires, the government intends to continue assuming all costs associated with forest firefighting operations in the coming year.

— To that end, additional funding of $10 million will be granted in 2010-2011.

❑ Other measures in support of the forest industry

■ Reforestation of Northern Québec

The Northern Plan presents a comprehensive vision for the sustainable development of mining, energy, forest and wildlife resources as well as natural areas that lend themselves to recreation and tourism activities.

Regenerating Québec's forest heritage is part of the sustainable development plan for Northern Québec. To step up silvicultural work in the region, additional funding of $18 million over three years is required to ensure seedling production and silvicultural work north of the 49th parallel.

■ A catalyst project to facilitate diversification of pulp and paper companies

In 2005, the pulp and paper sector provided employment to nearly 29 700 Quebecers, compared with 26 450 in 2008, a loss of 3 250 direct jobs.

There are number of reasons for the decline in jobs and economic activity in this sector. Two factors in particular are worth mentioning:

— The lower demand for newsprint due to electronic media is a structural problem that will likely continue;

— The recent economic crisis weakened pulp and paper companies even more.

To make it profitable again and to develop new markets, the pulp and paper industry is being called on to review its business model.

— With wood being a renewable resource, the biorefining sector affords a promising business opportunity for diversifying pulp and paper products in keeping with sustainable development principles.

To encourage pulp and paper companies to green their operations, the government is announcing the implementation of a catalyst project that will receive funding of $10 million a year from 2010-2011 to 2012-2013 with a view to supporting technology demonstration and research in the area of biorefining.

■ Support to foster modernization of pulp and paper companies

In the coming months, the Québec government, in partnership with the SGF, will determine whether or not tailored and targeted measures are required for pulp and paper mills looking to modernize their operations and remain profitable over the long term.

The government's and SGF's efforts should focus on companies with the best performance, particularly those with forward-looking investment projects that generate significant economic spinoffs for Québec's regions.

❑ Extension of the tax credit for the construction and major repair of public access roads and bridges in forest areas

In its 2006-2007 Budget, the government introduced a tax credit for the construction and major repair of public access roads and bridges in forest areas.

This refundable tax credit, which expires December 31, 2010, is calculated at a rate of 90% of the eligible expenses incurred by a company.

■ Considerable support for forest companies

Every year, 60 forest companies claim the tax credit. The financial assistance it provides supports the construction or major repair of approximately 4 000 km of forest roads per year.

The amount of the tax credit will total $505 million for the period ending in 2010-2011, representing government assistance of $27 000 per km of forest road on average.

TABLE 6

Impact of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas – 2006-2007 to 2010-2011[1]

			Eligible expenses			Estimated tax credit	
Fiscal year	**Recipient businesses** (number)	**Distance** (km)	**Construction** ($ million)	**Major repair** ($ million)	**Total** ($ million)	**Total cost** ($ million)	**Cost per km** ($)
2006-2007[2]	30	2 200	45	18	63	38	17 000
2007-2008	60	4 000	84	33	117	105	26 000
2008-2009	60	4 200	103	44	147	132	31 000
2009-2010[F]	60	4 400	104	37	141	127	29 000
2010-2011[F]	60	3 800	84	30	114	103	27 000
TOTAL		**18 600**	**420**	**162**	**582**	**505**	**27 000**

F: Forecast.
1 Figures are estimates based on certificates issued by the Ministère des Ressources naturelles et de la Faune.
2 Initially, from March 24, 2006, the date the tax credit came into effect, the applicable rate was 40%. Since October 23, 2006, the rate of the tax credit has been set at 90%.
Sources: Ministère des Ressources naturelles et de la Faune and Ministère des Finances du Québec.

■ Several regions benefit from the tax credit

The tax credit has helped spur construction and major repair of public forest roads and bridges in several regions of Québec.

A very large part of this work occurs in the regions of Saguenay–Lac-Saint-Jean, Côte-Nord, Mauricie, Nord-du-Québec and Abitibi-Témiscamingue.

TABLE 7

Regional breakdown of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas – 2006-2007 to 2010-2011[1]

	Tax credit	
Administrative région	**Amount** ($ million)	**Share** (%)
Saguenay–Lac-Saint-Jean	137.9	27.3
Côte-Nord	98.2	19.5
Mauricie	82.2	16.3
Nord-du-Québec	82.1	16.3
Abitibi-Témiscamingue	41.1	8.1
Outaouais	25.9	5.1
Laurentides	15.3	3.0
Capitale-Nationale	13.4	2.6
Gaspésie–Îles-de-la-Madeleine	4.4	0.9
Bas-Saint-Laurent	3.4	0.7
Estrie	0.7	0.1
Chaudière-Appalaches	0.4	0.1
TOTAL	**505.0**	**100.0**

1 Figures are estimates based on certificates issued by the Ministère des Ressources naturelles et de la Faune.

Sources: Ministère des Ressources naturelles et de la Faune and Ministère des Finances du Québec.

■ Facilitating the transition to the new forest regime

The government recently announced a reform of the forest regime, which will come into force on April 1, 2013.

— Under the new forest regime, forest management planning and timber allocation will be under the responsibility of the Ministère des Ressources naturelles et de la Faune.

— The new forest regime may result in a certain degree of redistribution among forest companies of forest management units and timber volumes harvested from public forests.

To facilitate the transition to the new forest regime and encourage businesses to continue their forest management activities, the government is extending the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas until March 31, 2013.

However, since the government is expecting a sustained recovery in forestry starting in 2011 and, consequently, an improvement in the financial position of forest companies, the rate of the tax credit will be gradually decreased to stand at 80% in 2011, 70% in 2012 and 60% from January 1 to March 31, 2013.

The extension of the tax credit will provide additional financial support of $212 million over a three-year period.

TABLE 8

Additional support for forest companies — Extension of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas
(millions of dollars)

	2011-2012	2012-2013	2013-2014	Total
Tax credit for forest roads	100	87	25	**212**

Accounting for this extension, by the time the tax credit expires, it will have helped forest companies build and make major repairs to public forest roads and bridges totalling nearly $900 million.

1.2.3 Gaspésie–Îles-de-la-Madeleine development strategy

The Gaspésie–Îles-de-la-Madeleine region has being going through hard economic times for years and its industrial base has been weakened by the closure of major employers as well as the crisis in the forest industry.

— In the 2008-2009 Budget, the government provided tailored support to the Gaspésie–Îles-de-la-Madeleine region through $12 million over two years for the creation of the Fonds d'intervention stratégique régional (FISR) and the Fonds d'aide au développement des territoires (FADT) for the Gaspésie–Îles-de-la-Madeleine region.

— These two funds enable local communities in the region to maintain their vitality and strengthen their ability to retain and attract residents and businesses.

Although the economic situation of the region has improved in recent years, the longevity of targeted measures remains crucial to diversifying the regional economy and narrowing the economic gap with the other regions of Québec.

Thus, the government is announcing the renewal of its financial support for the FISR and FADT, to the tune of $6 million a year for three years.

Tailored support for the Gaspésie–Îles-de-la-Madeleine region

Socioeconomic profile of the region

Although the economic situation of the Gaspésie–Îles-de-la-Madeleine region has improved somewhat in recent years, the socioeconomic indicators for the region show that the situation remains worrisome.

Principal socioeconomic indicators, 1999 and 2009
(per cent and current dollars)

	Gaspésie–Îles-de-la-Madeleine		Québec as a whole	
Economic indicators	**1999**	**2009**	**1999**	**2009**
Unemployment rate	20.6	15.6	9.3	8.5
Employment rate	40.2	43.4	56.9	59.7
Per capita personal income	17 939	26 271[1]	23 851	33 406[1]

1 Preliminary figure for 2008.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

Fonds d'intervention stratégique régional (FISR) and Fonds d'aide au développement des territoires (FADT)

The purpose of these two complementary funds is to, among other things, increase production of value-added goods destined for export and support projects involving niches of excellence. More specifically, the FISR adopts a structuring approach by targeting the business environment of recognized organizations in the export and business assistance field and supporting economic projects through financial assistance for the salaries of qualified professionals. The FADT adopts a flexible approach by supporting initiatives with long-term promise that create temporary jobs meeting specific local needs.

Both funds generate significant economic spinoffs for the region. They have triggered investments of nearly $60 million from partners and developers that have created 650 jobs and maintained 1 125 more. They have also supported 1 874 temporary jobs.

Spinoffs from the FISR and FADT from 2008-2009 to 2009-2010
(millions of dollars and number)

		Financial participation			Jobs		
	Number of projects	**Government**	**Partners**	**Developers**	**Created**	**Maintained/ consolidated**	**Temporary**
FISR	119	5.9	23.3	25.3	650	1 125	—
FADT	206	5.9	6.7	2.4	—	—	1 874
TOTAL	**325**	**11.8**	**30.0**	**27.7**	**650**	**1 125**	**1 874**

Fiscal measures to support the Gaspésie–Îles-de-la-Madeleine region

The government has provided the region with several tools to help it diversify its economy. In addition to creating the FISR and FADT, the government introduced fiscal measures to foster projects that have a structuring effect.

The tax credit for Gaspésie and certain maritime regions of Québec supports businesses in the manufacturing sector, the wind energy sector, the sea products processing sector and the marine biotechnology and marine aquaculture sectors. Businesses can claim this tax credit as well as the investment tax credit to encourage the acquisition of manufacturing equipment. These fiscal measures, which apply until 2015, were substantially improved in December 2009. The improvements made will provide additional support of nearly $6 million a year, for a total of $35 million between 2010-2011 and 2015-2016.

All told, the region's businesses will receive fiscal support of approximately $100 million from 2010-2011 to 2015-2016, factoring in the estimated cost of the fiscal measures before the improvements.

2. MODERN, HIGH-QUALITY INFRASTRUCTURE

Since 2007, the government has undertaken an ambitious policy of modernizing and renovating public infrastructures to both bridge the maintenance gap from years past and meet current and future needs.

This policy was necessary in view of infrastructure maintenance and replacement gap that had developed.

It has proven particularly apposite in view of the economic situation. When the recession hit, Québec was ready before anyone else to support activity through infrastructure investments.

This policy has quickly produced spectacular results.

— From 1997-1998 to 2006-2007, investments in public infrastructure had risen by 8% per year on average.

— Growth accelerated sharply as of 2007.

Infrastructure investments surged 20% in 2007-2008, 32% in 2008-2009 and 35% in 2009-2010.

Annual infrastructure investments have more than doubled between 2006-2007 and 2009-2010, rising from $4.2 to $8.9 billion.

2.1 The effort started in 2007 continues

As required under the *Act to promote the maintenance and renewal of public infrastructures*, the government is continuing the investments it has undertaken.

— Under the 2009-2014 Québec Infrastructures Plan (QIP), the government will invest $9.1 billion in 2010-2011.

— Thereafter, annual investments will gradually decrease to the amount needed to satisfy the Act – i.e. the envelope required to maintain assets and close the maintenance gap over 15 years.

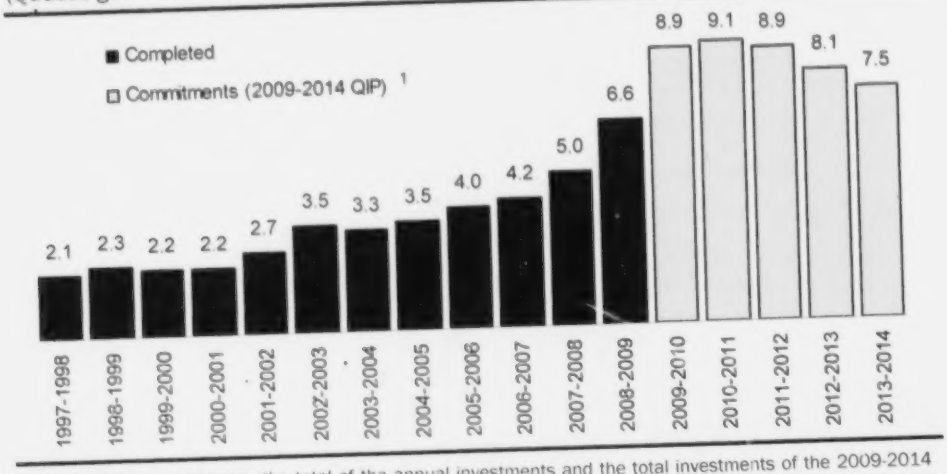
— Over the entire period 2009-2014, the envelope rises by $831.3 million compared to the previous five-year plan.

Accordingly, for the period, the government will invest $42.6 billion.

Over the same period, investments will reach $56.2 billion, if the contributions of the government's partners are included.

CHART 2

Investments in public infrastructure
(Québec government contribution, billions of dollars)



1 The difference between the total of the annual investments and the total investments of the 2009-2014 QIP $42.6 billion is attributable to rounding of the annual amounts.

2.2 Extensive sports infrastructure

2.2.1 Replacement of freon systems in arenas

In Québec, sports practised on ice, particularly hockey, are of major importance. Québec has more than 400 arenas and sports centres equipped with refrigeration systems which, for the most part, were built in the 1970s and use the two types of freon that were employed at that time, CFC-12 and HCFC-22.

To reduce halocarbon emissions into the atmosphere, these two types of freon are subject to regulations that will gradually restrict their production and use by 2015 and 2020.

— Consequently, major modifications will have to be made at a number of these establishments in the coming years to replace existing freon systems with more environmentally friendly systems.

The cost of replacing refrigeration systems using these two types of freon is approximately $800 000 per establishment.

To address the impact of these environmental regulations, the government will assume 50% of the costs incurred by the municipalities or organizations that own these facilities to modify or replace their freon refrigeration system. The plan will extend over a ten-year period beginning in 2010-2011.

— An initial investment phase, to be completed over the next three years, will help finance the replacement of freon systems.

The other establishments will receive financial assistance under this program in subsequent years.

2.2.2 Institut national du sport du Québec

Our athletes are a great source of national pride and some of our best ambassadors to the world.

So that our athletes can remain competitive and shine even more on the world stage, the 2010-2011 Budget provides for the creation of the Institut national du sport du Québec. The institute, which will be located at the Olympic Stadium, will be both a place where high-performance athletes can train and an organization capable of providing the required services to all of Québec's international athletes in their respective training centres.

Whether it be sports medicine and scientific services, or access to training facilities that meet international standards, the institute will provide support comparable to the best practices in the world.

In addition, the institute will coordinate and support a network of regional training centres that will offer services to athletes who compete internationally.

Funding totalling $24 million is earmarked for this project.

2.2.3 Sports and Physical Activity Development Fund

The Sports and Physical Activity Development Fund, created in June 2006, serves, among other things, to finance the renovation, development and upgrading of sports and recreational facilities, and to provide financial assistance enabling high-performance athletes to have access to more specialized centres.

Additional funding of $209 million will be allocated to the Sports and Physical Activity Development Fund in order to finance the replacement of freon refrigeration systems, the creation of the Institut national du sport du Québec, and other initiatives.

Beginning in 2010-2011 and until 2022-2023, the amount drawn annually from the tobacco tax—currently $30 million to fund authorized investment projects in the amount of $325 million—will be increased by an additional $19 million that will be injected into the fund each year.

TABLE 9

Sports and Physical Activity Development Fund
(millions of dollars)

		New investments			
	Current situation	**Institut national du sport du Québec**	**Replacement of freon systems, and other initiatives**	**Subtotal**	**Total**
Budget for projects	325	24	185	209	**534**

2.3 Transportation infrastructures

The government is paying particular attention to transportation infrastructures.

For the government, increasing the public transit service offering and improving the condition of the road network is a priority.

— Increasing public transit ridership in place of using automobiles will help relieve congestion and reduce greenhouse gas emissions.

— Modern and well-maintained infrastructures will facilitate the movement of people and merchandise and therefore trade among Québec's regions and between Québec and its partners.

For the period 2009-2014, the Québec Infrastructures Plan includes investments of $19.0 billion in the road transportation and public transit sector, i.e. 44.6% of total infrastructure investments.

Of this total:

— $16.26 billion will be allocated to investments in the road network;

— $2.77 billion will be invested in public transit.

2.4 Transportation infrastructure financing: creation of the Fonds des infrastructures routières et de transport en commun

In March 2009, the government announced the creation of the Fonds des infrastructures routières et de transport en commun (FORT), to finance these infrastructures.

❑ Objectives

The FORT[1] will be set up in 2010-2011. Its objective will be to provide financing for road infrastructures and public transit infrastructures.

The FORT will have dedicated revenue, chiefly the bulk of the revenues from the fuel tax as well as driver's licence fees and vehicle registration fees.

This is a logical allocation, since the fuel tax must reflect the costs usage of the road network, the environmental impacts relating to the use of fuels, and traffic congestion. Accordingly, the tax will be used to finance both improvements in the road network and public transit infrastructure development.

As of 2011-2012, the financial projections of the FORT indicate that its dedicated revenue will not be enough to meet the expenditure it will have to cover. This gap between revenue and spending will widen very quickly if nothing is done, because the revenue of the FORT are rising at a slower rate than its expenditure.

1 The legislation creating the FORT will specify that the activities of the Fonds pour la vente de biens et services, the Fonds des partenariats en matière d'infrastructures de transport (not active yet) and Fonds des contributions des automobilistes au transport en commun will be incorporated into the FORT. This addition will not alter the fund's balance.

TABLE 10

Projection of revenue and expenditure of the FORT from 2010-2011 to 2014-2015

(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Revenue					
- Fuel tax[1]	1 697	1 737	1 772	1 801	1 831
- Licence and registration duties[2]	672	701	730	760	788
- Other revenue[3]	14	14	14	14	14
Total revenue paid into the FORT	**2 383**	**2 452**	**2 516**	**2 575**	**2 633**
Expenditure					
- Road investments[4]	– 1 695	– 1 979	– 2 242	– 2 466	– 2 719
- Public transit[5]	– 368	– 537	– 606	– 664	– 707
Total expenditure of the FORT	**– 2 063**	**– 2 516**	**– 2 848**	**– 3 130**	**– 3 426**
Annual balance	**320**	**– 64**	**– 332**	**– 555**	**– 793**
ACCUMULATED SURPLUS (DEFICIT)	**320**	**256**	**– 76**	**– 631**	**– 1 424**

1 Excluding the aircraft fuel tax and the diesel fuel tax for railroad locomotives.
2 Excluding revenue from registration duties for off-road vehicles and the portion of revenue from fees paid to the Société d'assurance automobile du Québec to fund expenditures relating to road network access management and road checks.
3 Including in particular the sale of goods and services relating to road infrastructures of the Ministère des Transports du Québec.
4 Expenditures regarding depreciation of infrastructures, the cost of debt service, expenditures that cannot be capitalized, upkeep expenses to maintain the potential of road infrastructures and assistance for capital investments on the local road network.
5 Including principal and interest payment expenditures of capital investments of transportation organizations.

Sources: Ministère des Transports du Québec and Ministère des Finances du Québec.

❑ Cost control

The government has taken a number of actions to keep better control over costs. Among them, the following initiatives must be highlighted:

— Last February, the Minister of Transport announced that an anti-collusion would be set up within his department, headed by Jacques Duchesneau. This unit will be mandated, in particular, to closely monitor contracts, prevent collusion as well as any resulting fraud and embezzlement, implement mechanisms to detect collusion and encourage fair business practices.

— The Ministère des Transports has undertaken benchmarking studies to compare road construction costs in Québec with similar costs in other provinces.

— The Minister of Transport has tightened the contracting framework and its application by her department, and hired an internal auditor in each of its 14 territorial branches.

❑ Fuel tax rate increase

This heightened control will not, on its own, settle the deficit in the financing of infrastructures, in which the government has invested massively in recent years. The government must act on the revenue side.

— The government is announcing that the rate of the fuel tax will rise by 1 cent per litre on April 1 of each year from 2010 to 2013 to offset the expected deficit in the FORT.

— The rate of the gasoline tax will rise gradually from 15.2 cents to 19.2 cents per litre, while the rate of the tax on diesel fuel will rise from 16.2 cents to 20.2 cents per litre.

TABLE 11

Fuel tax rates from 2009-2010 to 2013-2014

(cents/litre)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Gasoline	15,2	16,2	17,2	18,2	19,2
Diesel fuel	16,2	17,2	18,2	19,2	20,2

Note: The rate rises will apply on April 1 of each year.

To limit the difference in the price at the pump for Québec service stations located near the borders of Ontario, New Brunswick and the United States, the fuel tax reduction measure applicable to gasoline in these regions will be reviewed to determine whether changes need to be made to it.

The gradual rise in the fuel tax will increase FORT revenue by $120 million in 2010-2011, $240 million in 2011-2012, $360 million in 2012-2013 and $480 million in 2013-2014.

From an accounting standpoint, these revenues remain part of the consolidated fund, as does the program spending they cover. Once the FORT is in place, the revenue and spending will be treated separately from the consolidated fund. The FORT will be a separate accounting unit from the consolidated revenue fund, though it will be part of the government reporting entity.

TABLE 12

Projection of FORT revenue and expenditure from 2010-2011 to 2014-2015 – After the rise in the fuel tax rate
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Total revenue paid into the FORT	2 383	2 452	2 516	2 575	2 633
Fort expenditure	– 2 063	– 2 516	– 2 848	– 3 130	– 3 426
Subtotal	**320**	**– 64**	**– 332**	**– 555**	**– 793**
Gradual increase in the rate of the fuel tax of 1 ¢/litre on April 1 of each year from 2010 to 2013	120	240	360	480	480
Annual balance	**440**	**176**	**28**	**– 75**	**– 313**
ACCUMULATED SURPLUS (DEFICIT)	**440**	**616**	**644**	**569**	**256**

Sources: Ministère des Transports du Québec and Ministère des Finances du Québec.

PART TWO: A GRADUAL AND FAIR APPROACH TO MEET THE PUBLIC FINANCE CHALLENGE

The second part of the action plan tabled by the government with the 2010-2011 Budget is aimed at meeting the public finance challenge.

In March 2009, at the same time as it was stepping up efforts to support the economy, the government implemented a courageous plan to restore fiscal balance, setting a precise timetable for doing so.

The government is staying the course thus charted and setting out the process undertaken to restore sound public finances through a gradual and fair approach.

It is doing so in conjunction with the action plan, by:

— confirming its objective of returning to balanced budgets by 2013-2014;

— significantly reducing its spending growth by establishing a culture of spending control;

— intensifying the fight against tax evasion and tax avoidance;

— increasing government revenues through taxation and user fees;

— making a number of choices in regard to health funding;

— strengthening our social safety net through solidarity and anti-poverty measures.

1. CHARTING THE COURSE UP TO 2013-2014

The government is confirming the objective set in March 2009: the necessary effort will be made to restore budgetary balance by 2013-2014.

To that end, the government is defining a gradual and fair approach that emphasizes spending control. The approach is transparent: the government is defining as of now 91% of the effort required to eliminate the budget deficit.

The main elements of the approach are set out below:

— The government is proceeding gradually. The effort defined will begin in 2010-2011 and gradually take effect over the next four fiscal years.

— The approach is fair and emphasizes spending control:

  — Nearly 62% of the effort required is to be assumed by the government itself and is attributable to the reduction in the growth of department and organization spending, the fight against tax evasion and tax avoidance, and spending control within certain public bodies. This will represent an effort of $6.9 billion in 2013-2014, taking into account the added contribution of the fund for financing health-care institutions.

  — The remaining 38% will stem from increased revenues from taxpayers—individuals and companies. This will represent an effort of $4.3 billion in 2013-2014.

A total effort of $12.3 billion will be required by 2013-2014 to restore budgetary balance.

— The means already identified to that end represent an effort of $11.2 billion in 2013-2014.

— That leaves an amount of $1.1 billion still to be absorbed.

TABLE 13

Effort to restore budgetary balance, 2010-2011 to 2013-2014[F]

(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
RECOVERY EFFORT BY THE GOVERNMENT				
Departments and organizations	1 152	2 864	4 694	6 649
Public bodies	80	240	365	530
Fight against tax evasion and tax avoidance	320	555	875	1 200
Subtotal	**1 552**	**3 659**	**5 934**	**8 379**
Additional funding for health institutions	– 180	– 575	– 995	– 1 445
Subtotal	**1 372**	**3 084**	**4 939**	**6 934**
EFFORT BY TAXPAYERS				
Individuals	421	1 553	2 329	2 536
Health contribution	180	575	945	945
Subotal	**601**	**2 128**	**3 274**	**3 481**
Companies and others.	230	377	653	796
Subtotal	**831**	**2 505**	**3 927**	**4 277**
Total effort identified	**2 203**	**5 589**	**8 866**	**11 211**
Balance to be eliminated[1]	—	311	324	1 051
TOTAL EFFORT	**2 203**	**5 900**	**9 190**	**12 262**

F: Forecasts.

1 Includes the balances of the fund for financing health-care institutions, amounting to $50 million and $500 million respectively, to be eliminated in 2012-2013 and 2013-2014.

2. SPENDING REDUCTION AND CONTROL

To tackle the public finance challenge, the government's first priority will be to take major steps to establish a true culture of spending control in all public bodies.

Curbing spending growth is key to restoring budgetary balance in 2013-2014.

For the 2010-2011 to 2013-2014 fiscal years, the government had set the objective of reducing spending growth from 4.8%, the increase between 2003-2004 and 2009-2010, to 3.2%. The government is now establishing a more ambitious objective:

— For 2010-2011, annual program spending growth will be cut from 4.8% to 2.9%.

— This further reduction will be obtained through additional resources to come from the fund for financing health-care institutions, which will be financed by the health contribution.

For 2011-2012, 2012-2013 and 2013-2014, the government is moving to curb program spending growth even more:

— Spending control will limit the annual spending increase to 2.8%.

— A further reduction to 2.2% will be obtained through the creation of the fund for financing health-care institutions.

The spending control effort represents $5.2 billion in 2013-2014, as a result of the reduction in growth of department and organization spending, combined with anticipated spending control efforts of $530 million, by the same date, by public bodies.

In the medium term, through better spending control, spending growth can be tied to growth in collective wealth—the only way to achieve sustainable protection of the services we hold dear.

To that end, the government is implementing its action plan for spending reduction and control. The plan is being made public by the Chair of the Conseil du trésor at the same time as the 2010-2011 Budget.

2.1 The results obtained

2.1.1 The 2009-2010 expenditure budget

Under the plan to restore fiscal balance, measures were to be taken as of 2009-2010 to slow program spending growth. This was done.

— In 2009-2010, program spending growth was limited to 3.8%, compared with 6.8% in 2008-2009, and to 6.0% in 2007-2008.

— Program spending rose an average of 4.8% a year from 2003-2004 to 2009-2010.

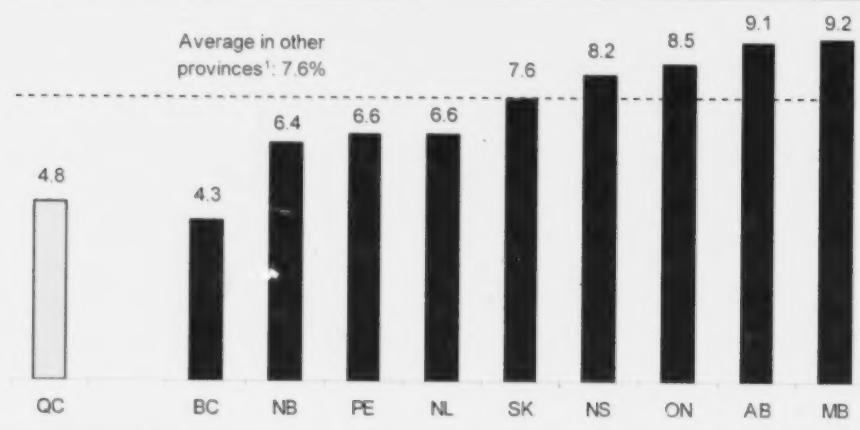
— For the period from 2003-2004 to 2009-2010, Québec was among the Canadian provinces that were the most effective in checking spending growth.

  – Québec's average annual spending growth of 4.8% compared favourably with average annual growth of 7.6% in the other provinces.

  – That result ranks Québec second in Canada. Only British Columbia did better, with average annual spending growth of 4.3%.

CHART 3

Program spending growth from 2003-2004 to 2009-2010
(Annual average, per cent)



P: Preliminary data for 2009-2010.
1 Weighted average.
Sources: For the years 2003-2004 to 2008-2009, the program spending data are drawn from provincial public accounts; for 2009-2010, they are drawn from the most recent official budgetary documents, dated March 21, 2010.

The marked reduction in spending growth for 2009-2010 was achieved despite unforeseen expenditures linked primarily to the economic situation. To curb spending growth, government departments and organizations took streamlining and cost-cutting measures representing nearly $900 million.

2.1.2 The 2010-2011 expenditure budget

For 2010-2011, the government is announcing a 2.9% increase in program spending growth.

Thus, the government is going further than the 3.2% reduction objective in the plan to restore fiscal balance, by introducing the health contribution.

The following table presents the breakdown of the 2010-2011 expenditure budget.

TABLE 14

Program spending growth in 2010-2011[P]
(millions of dollars)

			Growth	
	2009-2010	**2010-2011**	($ million)	(%)
Santé et Services sociaux	26 979.5	27 967.2	987.7	3.7
Éducation, Loisir et Sport	14 489.2	14 805.0	315.9	2.2
Famille et Aînés	2 066.6	2 178.6	112.1	5.4
Transports	2 547.5	2 787.5	240.0	9.4
Other portfolios	14 686.1	14 822.7	136.4	0.9
TOTAL	**60 768.9**	**62 561.0**	**1 792.1**	**2.9**

P: Preliminary results for 2009-2010 and forecasts for 2010-2011.
Note: Since figures are rounded, they may not add up to the totals shown for each portfolio.
Source: Secrétariat du Conseil du trésor.

The government is therefore reducing program spending for 2010-2011 from 4.8% (structural spending growth from 2003-2004 to 2009-2010) to 2.9%. The increase in budgetary expenditure will be limited to $1.8 billion. Of that total, 92% will be allocated to health, education, families and transportation.

— The government's contribution to health and social services will rise by 3.7%, accounting for 55% of the total budget growth forecasted in 2010-2011. The additional contribution from users, through the health contribution, will maintain total health spending growth at 5%.

— With the 2.2% growth in education spending, it will be possible to cover the increase in the education system's costs and continue implementing the reforms already under way.

— The increase in spending for families and transportation (respectively 5.4% and 9.4%) stems from government commitments.

— The government will generate savings in its other missions in order to maintain spending growth at 0.9%.

2.2 Measures for the longer term

The government will further cut spending growth after 2010-2011: the objective is to limit program spending growth to 2.2% from 2011-2012 to 2013-2014, that is, until budgetary balance is restored.

— In March 2009, the government had set a target of reducing annual spending growth from 4.8% to 3.2% for the 2011-2012, 2012-2013 and 2013-2014 fiscal years. That target is being reduced to 2.8% for these three years, through the establishment of a culture of public spending control throughout government.

— That target is being decreased to 2.2%, in regard to program spending, with the introduction of the health contribution.

2.3 The government's action plan on spending

In its action plan for spending reduction and control, made public by the Chair of the Conseil du trésor, the government is announcing a number of initiatives to attain spending targets. The implementation of these major initiatives will be gradual and ongoing.

The aim of the action plan is to establish a true culture of spending control within the Québec government.

— In the action plan, the government reports on the results obtained in 2009-2010 and announces a number of immediate decisions for 2010-2011.

— The government is taking measures for the longer term aimed at:

  — fair, responsible remuneration,

  — well-organized government,

  — ongoing improvement in efficiency.

2.3.1 Decisions for 2010-2011

The government is taking a number of key decisions to ensure the spending target is attained in 2010-2011.

— Remuneration of government employees accounts for 54% of the government's program spending. Contrary to many other jurisdictions in Canada, the government is not proposing a pay freeze to its employees. However, it is normal for the government to determine pay-related spending measures in the spending control initiatives. For 2010-2011, the government is decreasing labour cost growth by $500 million.

— Since 2003-2004, and despite a good performance in overall spending control, the average annual growth in operating expenditures has been 3.7%—a rate above inflation.

  — As indicated by the Chair of the Conseil du trésor in the action plan on spending, the government is setting a target for a gradual 10% reduction in administrative operating expenditures, to be attained by 2013-2014.

  — Reduction targets of 25% have been set for advertising, training and travel costs, and will take effect beginning in 2010-2011.

  — Annual reporting on these expenditures will be submitted to the Conseil du trésor and released with the budget documents.

— A new provision has been adopted by the Conseil du trésor and Cabinet, whereby departments and budget-funded organizations wishing to implement new initiatives will have to include with their request the means by which the initiatives are to be financed. The means may be in the form of new sources of revenue or may stem from the end of current activities.

— The government will not automatically renew programs when they come to an end. Their renewal will be subject to the same conditions as new initiatives.

— The hiring freeze in place until March 31, 2010 could be ordered again, as necessary.

— Investment growth under the 2009-2014 Québec Infrastructures Plan is limited to 1.5%, compared with 10.8% in the previous plan. The government is maintaining the objectives it set in conjunction with the *Act to promote the maintenance and renewal of public infrastructures*.

2.3.2 Fair, responsible remuneration of personnel

As stated earlier, remuneration in the public sector is key to better spending control, accounting for 54% of program spending by the Québec government. Restoring budgetary balance is dependent on pay control, but pay levels must be fair and take into account the challenges of attracting and retaining personnel.

❑ Pay proposal submitted to the unions

To control labour costs, the government submitted its pay proposals in December 2009.

The government is reiterating its pay proposal submitted to the unions. It is a just and fair proposal that goes as far as possible in the current financial context. It is also a generous proposal, when compared to the pay proposals in several other jurisdictions in Canada.

The proposal made to union partners is aimed first and foremost at finding solutions to attracting and retaining staff in certain labour categories in all sectors of the public administration.

Priority will be given to the most significant problems in attracting and retaining staff.

Union partners are invited to review work organization—a key issue for the government—with employer representatives.

❑ New measures

The government is announcing a two-year pay freeze for the premier, ministers and MNAs.

The government is broadening the pay proposal submitted to the unions to include all public and para-public sector employees: there is no reason for not applying the government's pay approach to everyone.

— The government has decided to apply the provisions offered to the unions to all personnel. These provisions are effective immediately.

— This pay policy will also apply to Cabinet staff, and officers and directors of the civil service, the health and social services network, the education network and universities, public bodies and government corporations.

The government is defining new rules on incentive bonuses for 2010-2011 and 2011-2012.

— The government has decided to suspend payment of incentive bonuses for the next two years. This decision applies to senior officers of the civil service and Cabinet staff, non-managerial staff of the health and social services network and education network, senior administrators of universities, government organizations, and government corporations.

— Special provisions will apply to government corporations with a commercial mission so that they make a similar effort to rest of the public sector.

— Incentive bonuses will be maintained for other public and para-public sector management personnel, according to the current rules.

— The government will clarify the conditions and rules applicable to performance evaluation and the payment of attendant incentive bonuses.

The required legislative amendments will be made in conjunction with the omnibus bill prepared by the Minister of Finance further to the budget.

Commercial government enterprises—Hydro-Québec, Loto-Québec and Société des alcools du Québec—must take steps to reduce their spending and increase their productivity.

— By 2013-2014, the government intends to require savings of $350 million from these three enterprises.

— In addition, the other public bodies will be asked to generate savings of $180 million.

— The organizations concerned must report on the follow-up of these various measures. The report will be incorporated into the department's or organization's annual management report.

2.3.3 Well-organized government

The establishment of a culture of spending control implies that every effort necessary must be made, permanently, in order for the Québec government to be well organized.

That supposes ongoing restructuring of organizations and the continuation of the downsizing begun six years ago.

❑ Restructuring of organizations

As announced by the Chair of the Conseil du trésor in the action plan for spending reduction and control, the government is announcing the elimination of 14 organizations as well as the administrative streamlining of 14 funds or organizations.

This measure will cut red tape and simplify the functioning of government.

Of course, the rights and fringe benefits of the personnel concerned will be scrupulously respected.

For the purposes of the restructuring, the government will table an omnibus bill announcing the elimination and amalgamation of public bodies.

— The omnibus bill will provide for the integration or amalgamation of public bodies or, purely and simply, for their elimination.

— The bill will be tabled by the government by the end of the 2010-2011 fiscal year.

❑ Reduction in the number of employees

Through the policy of replacing one out of every two employees who retire, which was implemented in 2004, the number of employees in the civil service has been reduced by 6% (a decrease of 4 557 full-time equivalents (FTEs) from 2004-2005 to 2008-2009).

For 2010-2011, the government aims to continue to reduce the number of public sector employees as follows:

— Overall payroll of government departments and organizations will be frozen at current levels until 2013-2014.

— The replacement of one out of every two employees who retire will continue to apply in departments and organizations. This measure will be extended to include the administrative staff of the health and social services network and the education network, including management personnel.

— Globally, payroll growth, which stems primarily from pay increases and pay scale advancement, must be offset by efficiency gains and partial replacement of employees who retire.

2.3.4 Ongoing improvement in government efficiency

The establishment of a culture of spending control will be based on ongoing improvement in the efficiency of the Québec government.

❑ Action already taken

A number of measures to improve the delivery of public services and government performance were implemented recently or are in progress. These measures are the following:

— The government established Infrastructure Québec and adopted a new policy framework for improved governance of large public infrastructure projects.

— In March 2010, a new directive aimed at improved governance of information resource projects was approved by the Conseil du trésor. These projects represent an annual investment of more than $1.1 billion in government departments and agencies. Better planning, monitoring and control of project costs will be possible through this major undertaking.

❑ New measures implemented

The government has taken a number of concrete actions to improve government performance. The following are among the initiatives announced in the action plan on spending:

— in the health and social services sector, the use of activity-based management to improve reporting, the reduction of administrative structures, the reorganization of work, the review of the governance of institutions, the streamlining of local governance structures, the development of a "Lean Healthcare" performance approach, and a review of the organization of information technologies;

— in the education sector, the improvement of school boards' general efficiency and reporting, better governance and more transparency in university and college educational institutions, and the creation of a task force to reduce red tape in the school community;

— in the other departments, the review of business practices relative to service delivery at the Curateur public and the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation the flattening of the administrative structure at the Sûreté du Québec, the implementation of a fully digitial cadastre at the Ministère des Ressources naturelles et de la Faune, and online admission to French courses at the Ministère de l'Immigration et des Communautés culturelles.

These are just some of the examples of initiatives that have already been identified to improve government performance.

❑ Measures for the longer term

As indicated by the Chair of the Conseil du trésor in the action plan on spending, efforts to control spending growth will be continued, and will focus on a complete review of government programs, to be carried out by 2013-2014.

To that end, ongoing review mandates regarding programs and program delivery will be conducted. In particular, these will bear on:

— the health and social services sector;

— the education sector;

— business assistance;

— the functioning of government.

A tool for evaluating the performance of programs and organizations, styled on the Program Assessment Rating Tool (PART) in the United States, will be developed in collaboration with the École nationale d'administration publique.

The government will also carry out a review of the *Public Administration Act*.

3. COLLECT ALL GOVERNMENT REVENUES

Fighting tax evasion and tax avoidance[2] is essential to the implementation of any measure seeking to restore balance to public finances. For the government, ensuring that each does his part and that government revenues are collected fairly is a priority.

For 2013-2014, the government expects the additional effort to fight tax evasion and tax avoidance to generate $1.2 billion.

Tax evasion: everyone loses

While most taxpayers satisfy their tax obligations, large amounts escape the tax authorities. Apart from the tax cheats themselves, nobody gains from tax evasion.

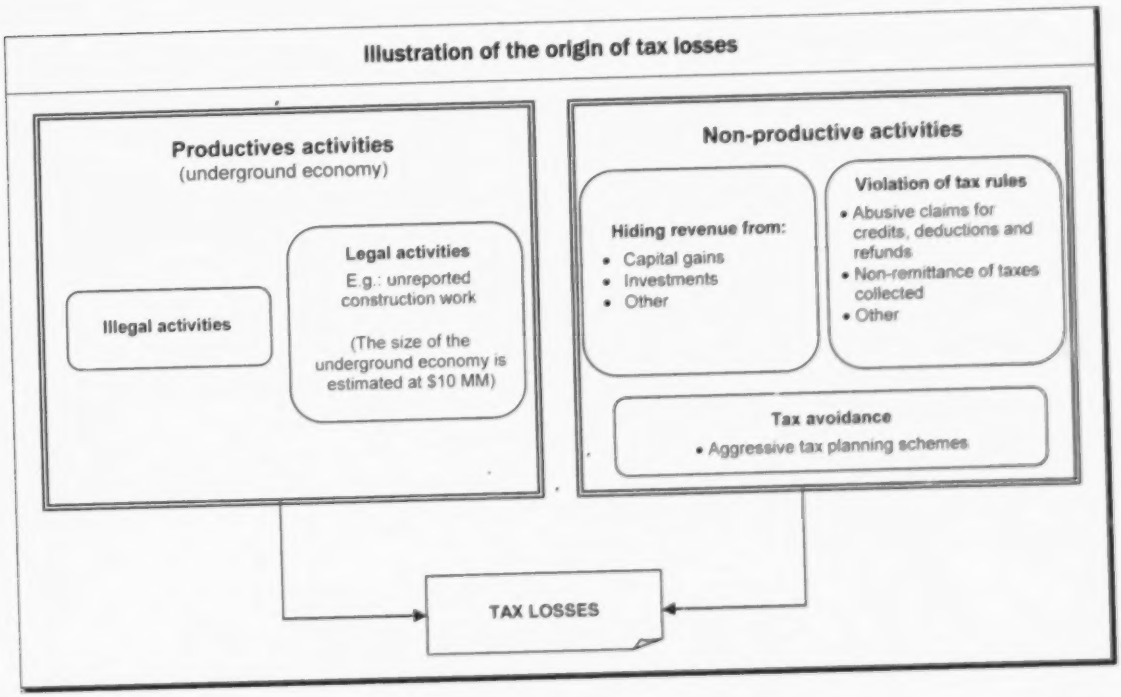
- Taxpayers must bear a heavier tax burden to compensate for those who do not pay their share.
- Workers paid under the table enjoy less protection: they are not covered by employment insurance, a pension plan or occupational health and safety plans.
- Businesses that obey the law face unfair competition from those that hide their taxable income and do not comply with existing regulations.
- Consumers cannot enforce guarantees against businesses that practice fraud.

Accordingly, the fight against tax evasion must be a priority. The measures implemented and sanctions applied must be such that even for tax cheats, the prize is not worth the risk.

2 Tax evasion consists in deliberately ignoring a specific part of the law. Tax avoidance is the result of measures taken to minimize tax that, while fulfilling the letter of the law, abuse its spirit.

❑ Battle is joined

In March 2009, the government set an ambitious target: the recovery of an additional $900 million as of 2013-2014. This was in addition to the $2.3 billion recovered each year by Revenu Québec.



■ Tax audit programs

To achieve this objective, Revenu Québec is attacking all activities that result in tax losses. In particular, it has set up a number of targeted tax audit programs.

These programs seek to:

— put an end to the non-reporting of income in the restaurant industry;

— detect taxpayers who under-report income using wealth indicators;

— counter aggressive tax planning schemes;

— encourage taxpayers to bring their tax situation into compliance by means of voluntary disclosure.

■ Put an end to the non-reporting of income in the restaurant industry

The restaurant industry is fertile ground for tax evasion: Revenu Québec estimates the tax losses in this sector in 2007-2008 at $417 million. The consumer is often unaware of the schemes used.

— Tax losses stem from the fact that some restaurateurs do not declare all their sales.

— In addition, they collect the applicable taxes from consumers, but do not always remit them to Revenu Québec. Accordingly, these crimes occur without consumers noticing anything.

To put an end to this unfair competition, Revenu Québec is acting by installing a computerized system to ensure that all sales made are reported.

— As announced in the 2006-2007 Budget, all restaurateurs will have to hand their customers a bill produced using a sales recording module.

— The project is on schedule: sales recording modules will begin to be installed in September 2010 and all restaurants will have to have equipment in operation as of November 2011.

Sales recording module

The sales recording module is a microcomputer connected to point-of-sale system or cash register.

- The module is designed to receive data relating to commercial transactions, i.e. bills, cash receipts and credit notes.
- The sales recording module records the information relating to these transactions, such as sales and taxes, in secure data storage.
- The system then produces a digital signature and sends the information needed to print a digitally-signed invoice to a printer.

- **Detect taxpayers who under-report income using wealth indicators**

The wealth indicators program helps detect taxpayers whose standard of living seems incompatible with their reported income.

The program is an expert system, based on artificial intelligence concepts, that analyzes more than 200 billion items of information from 300 public bodies and private firms to detect taxpayers not reporting all their income. The program has won many prizes including the 2009 gold medal in the Innovative Management category of the Institute of Public Administration of Canada.

- **Counter aggressive tax planning schemes**

The government has granted Revenu Québec the additional resources needed to counter aggressive tax planning schemes as part of the strategy implemented for that purpose.

With the resources at its disposal, Revenu Québec can increase its know-how in the field, improve its computerized detection tools and take appropriate steps to act vigorously against identified aggressive tax planning schemes, in particular by setting up a team specializing in detection, management and countering such schemes.

The program targets taxpayers who, through often complex tax avoidance transactions, try to avoid tax or to reduce the effective tax rate of a given income.

- **Encourage taxpayers to bring their tax situation into compliance by means of voluntary disclosure**

Revenu Québec's voluntary disclosure program seeks to encourage taxpayers and agents to bring their tax situation into compliance by disclosing omissions or false returns that enabled them to avoid paying tax, in particular by hiding income abroad.

The Canadian government is in talks with 14 countries on the conditions of future tax information exchanges. These agreements will help reduce this type of tax evasion and will encourage taxpayers to make use of voluntary disclosure.

❑ The government is doing more: the recovery objective for 2013-2014 is raised to $1.2 billion

With the 2010-2011 Budget, the government is raising the ultimate tax recovery target by $300 million.

TABLE 15

New tax recovery targets
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Tax recovery targets				
2009-2010 Budget	200	300	600	900
Increase announced in the 2010-2011 Budget	120	255	275	300
TOTAL TAX RECOVERY	**320**	**555**	**875**	**1 200**

This objective will be achieved through the creation of the Agence du revenu du Québec.

The government also intends to deal directly with a number of problem situations through specific initiatives designed to attack:

— unreported work in the construction sector;

— economic and financial crime;

— illegal tobacco trade.

To that end, the government will emphasize greater cooperation among the players involved in at-risk sectors.

TABLE 16

Increase in tax recovery targets
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Creation of the Agence du revenu du Québec	–	105	125	150
Intervention in at-risk sectors				
Unreported work in the construction sector	80	100	100	100
Economic and financial crime	15	20	20	20
Illegal tobacco trade	25	30	30	30
TOTAL TAX RECOVERY	**120**	**255**	**275**	**300**

3.1 Creation of the Agence du revenu du Québec

On April 1, 2011, the Ministère du Revenu will become the Agence du revenu du Québec.

— The existing framework limits the actions of Revenu Québec. Revenu Québec is treated like a department that manages programs, which is inadequate for its role as the collector of government revenues.

— The transformation of Revenu Québec into an agency will give the organization the flexibility needed to implement and achieve the tax recovery targets that have been set.

The Minister of Revenue will continue to be answerable to the National Assembly. The Agence du revenu du Québec will carry out all the mandates and functions of the Ministère du Revenu.

In particular, agency status will:

— give the government revenue collection agency more autonomy;

— improve delivery of services to the public;

— allow a direct relationship between the cost of services and how they are funded;

— ensure even more rigorous accountability, by systematically assessing results and measuring performance;

— enable more adequate response to the other missions assigned by the government.

The government's objective is to have an independent and accountable tax collection organization with the resources and leeway needed to achieve its targets.

Revenu Québec's new governance framework will include:

— resources provided on a cost-benefit basis;

— a new approach focusing on best international practices.

❑ Resources provided on a cost-benefit basis

Revenu Québec's conversion into an agency will offer more flexibility to:

— hire auditors, investigators and forensic accountants to exercise better control and recover more tax;

— hire collectors to receive amounts owing;

— invest more in computer systems to:

  — close the maintenance gap;

  — increase productivity by improving online service delivery.

❑ A new approach focusing on best international practices

The new approach the Agence du revenu du Québec will follow draws on best international practices where prevention occupies centre stage.

On the one hand, these practices consist in helping taxpayers carry out their tax obligations, in particular with a better electronic offering, incorporating an interactive tax audit.

On the other, these practices seek to apply heavy penalties on those guilty of fraud and actively publicize the actions taken to benefit from the deterrent effect.

— Prison terms for tax evasion will rise from a maximum of two years to five years less a day, as is the case for major economic crimes. The Organization for Economic Cooperation and Development (OECD) is moving in the same direction since it is considering likening tax evasion to components of money laundering, i.e. a more serious category of offences than what currently exists.

— While respecting tax confidentiality, the Agence du revenu du Québec will expose those guilty of fraud or their accomplices to their professional association (Ordre des comptables agréés du Québec, Chambre des notaires du Québec, Barreau du Québec, Ordre des ingénieurs du Québec, etc.).

The Minister of Revenue will release the broad parameters of the new agency shortly.

3.2 Unreported work in the construction sector

❑ A quick response to the situation

According to the most recent estimates of Revenu Québec and the Ministère des Finances, tax losses in the construction sector amounted to $1.46 billion in 2008. These losses stem from illegal practices including false invoices, embezzlement and unreported work.

This situation is unacceptable, and that is the reason why the government has acted vigorously in recent months by announcing a series of measures to eliminate the presence of criminal groups and reprehensible practices in this industry:

— Opération Marteau: a squad formed of members of various police forces whose mission is to investigate alleged fraud related to the construction sector;

— the Revenu Québec tax certificate: this certificate is issued to a contractor who satisfies his tax obligations. It is required to bid on public contracts.

Revenu Québec, the Commission de la construction du Québec, the Régie du bâtiment du Québec and the Commission de la santé et de la sécurité du travail are working cooperating within ACCES[3] construction to resolve the problems in this industry by inspecting worksites, carrying out investigations, audits and initiating remedies under the tax laws.

Their work is supported in particular by the Director of Criminal and Penal Prosecutions who is marshalling resources to:

— offer adequate training to stakeholders and prosecutors in criminal and penal proceedings in relation to situations of unreported work;

— offer support for large-scale operations and make the necessary legal applications to that all appropriate methods of investigation can be used;

— launch criminal and penal prosecutions and argue cases in these matters.

The government will invest $12 million in 2010-2011 in a series of new initiatives to strengthen actions against unreported work in the construction industry. Of this amount, $2 million will be allocated to the Régie du bâtiment du Québec and $5 million to the Commission de la construction du Québec, bringing the latter's funding to fight unreported work to $9 million.

All these initiatives will enable the recovery of $80 million as of 2010-2011, in addition to the $250 million Revenu Québec recovers in this sector each year, for a total recovery of $330 million.

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3 Actions concertées pour contrer les économies souterraines.

Structure of the fight against unreported work in construction

Commission de la construction du Québec

Coordinate activities of ACCES construction.

Ensure that hours worked are reported:

— 35 370 worksite visits;
— 350 inspectors, investigators and professionals involved;
— 2 600 audits of accounting records;
— 200 Revenu Québec terminals connected to databases (access has also been granted to the Régie du bâtiment and Canada Revenue Agency).

Revenu Québec

Carry out tax audits to ensure taxes are paid:

— 29 500 interventions;
— 200 people involved including 12 in R&D who analyze tax evasion schemes, in particular.

Régie du bâtiment du Québec

Verify that contractors comply with the rules:

— 11 550 cases processed;
— 55 investigators, professionals and support staff involved;
— 178 000 declarations of work requiring a building permit seized and sent to the Commission de la construction du Québec and to Revenu Québec.

Commission de la santé et de la sécurité du travail

Ensure that employers comply with the rules regarding the funding of the occupational health and safety system:

— 50 auditors involved in all sectors of activity, including construction.

New partners:
Sûreté du Québec and Canada Revenue Agency

— Sûreté du Québec: coordination of Opération Marteau.
— Canada Revenue Agency: greater presence on worksites and common intervention strategy.

Their concerted actions result in:

Revenu Québec

Tax recovery and remedies under the tax laws

Director of Criminal and Penal Prosecutions

Criminal and penal prosecutions

- **Inspect more worksites with greater attention to public worksites**

New actions are planned to ensure that all hours worked are reported to the Commission de la construction du Québec and Revenu Québec, and that contractors satisfy the obligations with the Régie du bâtiment du Québec.

A team will be formed to offer consulting service to public clients to avoid the presence of unreported work on their worksites through:

— the introduction of contractual clauses;

— better control of the subcontracting chain;

— new worksite inspection strategies;

— better management of information on active businesses.

- **Detect businesses that use schemes such as false invoices to pay their employees under the table**

Actions will be taken to detect businesses and individuals that use false invoicing or money laundering schemes.

Efforts will also be made to discover new schemes and gain a better understanding of them to intervene more effectively.

- **Identify offenders more quickly**

A sustained presence will be maintained on the 50 largest worksites in Québec.

— The objective is to reconstruct the chain of subcontractors in real time and ensure that hours worked are reported.

— Currently, when Revenu Québec receives information on a delinquent contractor, it frequently happens that the business in question no longer exists.

In addition, the actual involvement of respondents that qualify businesses that hold permits will be quickly validated to counter frontman schemes.

- **Improve information management and processing**

Information will be channelled more towards specialized teams to ensure that the information gathered on the ground is analyzed and checked against other sources of data held by various partners as quickly as possible for more effective intervention.

- **Accentuate tax audits in residential renovation**

Special audits will be carried out in the residential renovation sector.

The goal is to ensure in particular that the revenue relating to work for which taxpayers have claimed a tax credit have actually been reported by the contractors.

Concrete results of the fight against unreported work in construction

Since 2003-2004, the fight against unreported work has helped to:

- recover more than $979 million;
- collect $152.5 million in penalties and fines;
- obtain more than 42 000 convictions for unreported work under the legislation governing labour relations in the construction industry (bill R-20) and the *Building Act*.

Results of activities of departments and organizations
(millions of dollars)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Total
Tax recovery							
Amounts recovered	126	138	123	162	216	214	**979**
Penalties	10.7	12.3	15.6	13.9	34.1	35.5	**122.1**
Fines	1.0	0.4	0.3	0.4	1.1	2.1	**5.3**
Criminal component							
Violation reports (units)	8 984	7 968	9 370	11 728	9 191	7 775	**55 016**
Convictions (units)	6 585	5 567	7 455	9 594	6 756	6 170	**42 127**
Fines	3.8	3.3	4.4	5.8	4.1	3.7	**25.1**

Sources: Commission de la construction du Québec, Revenu Québec and Régie du bâtiment du Québec. Compilation by the Ministère des Finances.

❑ Revenu Québec's overall strategy

All these actions are part of Revenu Québec's overall strategy to combat the creation and use of tax evasion schemes in the construction sector.

Revenu Québec will intervene with all players involved in such schemes: contractors, subcontractors, workers and professionals, financial institutions and customers.

3.3 Economic and financial crime

❑ An increasingly common form of crime

Economic and financial crime can take many forms, in particular infiltration of the legal economy by criminal groups. This type of infiltration has been observed, in particular over the course of the past year, while false invoicing and money laundering schemes have been brought to light in the construction sector.

Economic and financial crimes often hide behind very sophisticated schemes. Criminals are also using the possibilities offered by the internet.

The capacity for investigation of Revenu Québec and the Autorité des marchés financiers has proven insufficient to counter certain highly organized schemes that require police investigation tools, such as electronic eavesdropping or shadowing.

The government has taken a number of measures to fight this type of crime.

The Actions concertées contre les crimes économiques et financiers (ACCEF) committee was put in place to develop the know-how required to conduct investigations and ensure the quality of the information collected by police officers. ACCEF also seeks to provide prosecutors with the training needed to prosecute cases.

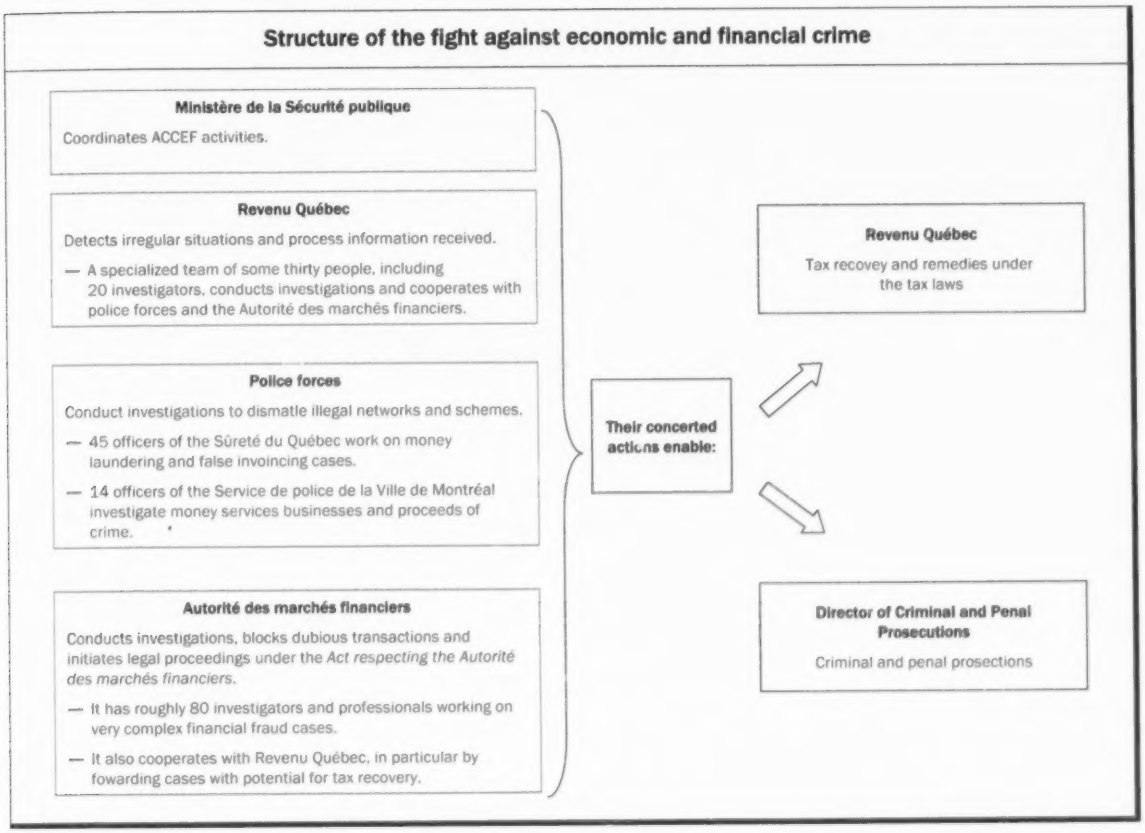
In addition, the government has had a number of bills passed whose effect has been to tighten financial sector regulation. In particular, the bills:

— require fund managers to register with and thus have their activities regulated by the Autorité des marchés financiers;

— stipulate explicitly the possibility for the judge to impose consecutive prison terms.

The government will intensify its efforts to more effectively attack "white-collar" criminals. To that end, the funding for ACCEF activities will be raised by $3 million in 2010-2011.

The expected yield from these new measures is $15 million as of 2010-2011 and ultimately, $20 million.


Structure of the fight against economic and financial crime
Ministère de la Sécurité publique
Coordinates ACCEF activities.
Revenu Québec
Detects irregular situations and process information received.
— A specialized team of some thirty people, including 20 investigators, conducts investigations and cooperates with police forces and the Autorité des marchés financiers.
Police forces
Conduct investigations to dismatle illegal networks and schemes.
— 45 officers of the Sûreté du Québec work on money laundering and false invoincing cases.
— 14 officers of the Service de police de la Ville de Montréal investigate money services businesses and proceeds of crime.
Autorité des marchés financiers
Conducts investigations, blocks dubious transactions and initiates legal proceedings under the Act respecting the Autorité des marchés financiers.
— It has roughly 80 investigators and professionals working on very complex financial fraud cases.
— It also cooperates with Revenu Québec, in particular by fowarding cases with potential for tax recovery.
Their concerted actions enable:
Revenu Québec
Tax recovey and remedies under the tax laws
Director of Criminal and Penal Prosecutions
Criminal and penal prosections

■ Table a bill regarding money services businesses

In the current parliamentary session, the Minister of Finance will table a bill to govern the right to carry on a money services business.

These businesses offer services such as buying and selling foreign exchange, transfer of funds, cashing of cheques, money orders, drafts and traveller's cheques, or operate private automatic teller machines.

Police investigations have shown that money services businesses are, knowingly or unknowingly, often used as facilitators of illegal activities such as tax fraud and money laundering.

■ Increase police staff levels

The Sûreté du Québec will form a new specialized team to combat economic and financial crimes, supporting the one already in place in Montréal. This team will cover eastern Québec and will have the support of the prosecutors of the Director of Criminal and Penal Prosecutions to ensure the quality of the evidence gathered.

Police officers will use all the investigative means at their disposal to dismantle criminal networks using, in particular, false invoicing schemes.

■ Intensify the fight against the proceeds of crime

The Service de police de la Ville de Montréal will intensify its efforts to fight money laundering, in association with Revenu Québec, mainly through operations in certain money services businesses that are frequently used for this type of scheme.

These efforts will be intensified thanks to the addition of police officers and more efficient management of information associated with fraud.

■ Greater surveillance of financial cybercrime

In view of the growing presence of individuals falsely representing themselves as financial advisors, the Autorité des marchés financiers will step up its surveillance efforts on the internet.

Since last September, the Autorité des marchés financiers taken steps to that end. The initial results are conclusive.

— More than sixty websites have been found through which financial products or services could be offered illegally.

— Six investigations have been opened, and in one case an application has been filed with the Bureau de décision et de révision cease carrying out activities as a securities advisor.

The Autorité des marchés financiers considers that over the coming year, it will be able to open other investigations and take various measures to quickly put an end to illegal solicitation activities carried out over the internet.

Examples of activities in the fight against economic and financial crime

Since June 2006, ACCEF has enabled the dismantling of major networks that led to substantial tax losses.

Anargie Project: false invoices in the gold sector

Searches were carried out in June 2007.

- The persons involved in this case face many charges of fraud, forgery and use of false documents, possession of stolen property and gangsterism.
- The estimated tax losses between September 2000 and June 2007 are more than $100 million.
- The Sûreté du Québec has developed new investigation methods to reflect the special nature of this case.

Dorada Project: false invoicing in the construction industry

This case made the headlines in the fall of 2008 and the spring of 2009.

- Collected and corroborated information indicated that a cheque cashing centre, belonging to a guilty organization, had cashed cheques totalling $107 million over the last five years, enabling tax fraud of roughly $45 million.
- The operation resulted in 22 searches and the arrest of 22 individuals.
  a. The searches led to the seizure of $2.1 million.
  b. Revenu Québec has issued assessments totalling $3.7 million.

3.4 The illegal tobacco trade

❑ Vigorous action

Since 2001, with the creation of the ACCES tabac committee, the government has acted vigorously and frequently to combat the illegal tobacco trade and many actions have been taken.

The effect of these actions has been the first increase in tobacco tax revenues in six years.

— Revenues from the specific tax on tobacco products were $654 million in 2008-2009.

— They are expected to reach $748 million in 2009-2010.

Smuggling has evolved over the last twenty years.

— In the 1990s, smuggling consisted in illegally reintroducing and reselling on the black market in Canada cigarettes legally produced in Canada and shipped to the United States after having been exempted from duties and taxes.

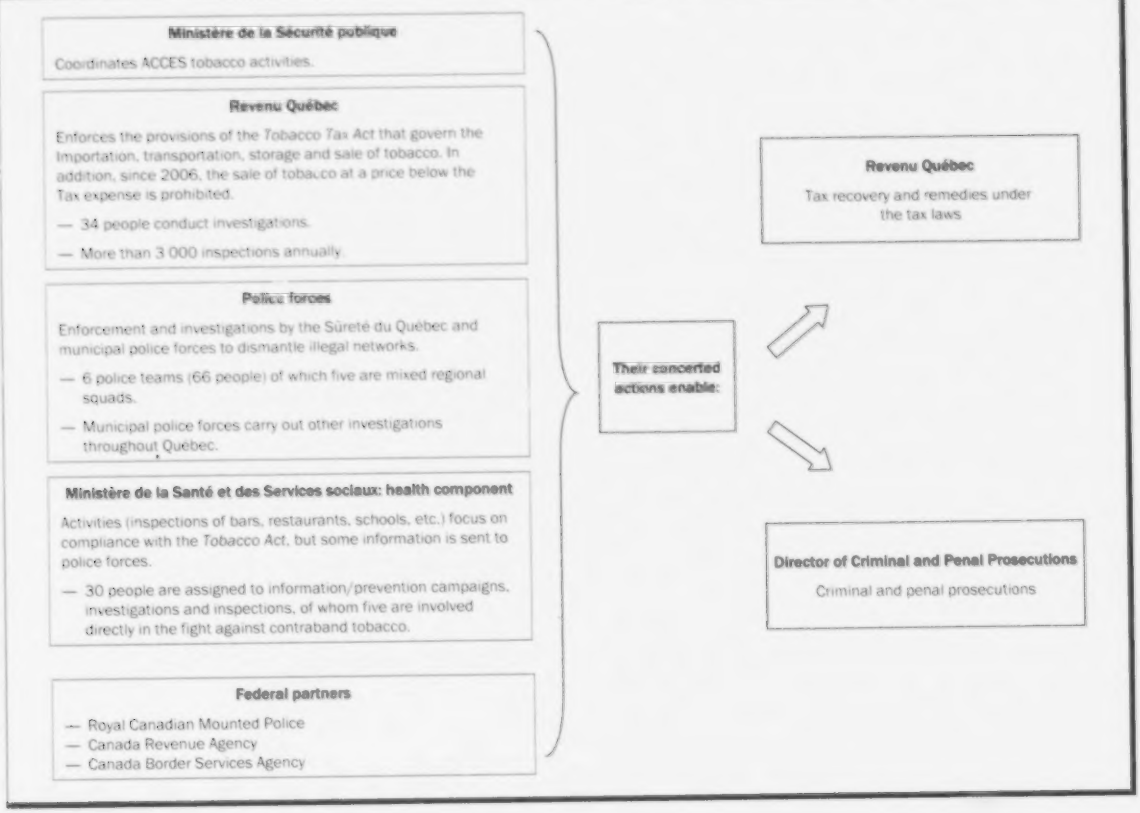
— Today, smuggling no longer involves legal businesses since contraband products are sourced from illegal manufacturers.

The actions taken against the illegal tobacco trade are producing results, but the situation remains worrisome, with tax losses estimated at $300 million for 2008.

— Additional funding of $2 million in 2010-2011 will therefore be provided to intensify police presence throughout Québec.

— The expected yield from these new initiatives is $25 million as of 2010-2011 and $30 million when the teams are fully operational.

Structure of the fight against the illegal tobacco trade


Ministère de la Sécurité publique
Coordinates ACCES tobacco activities.
Revenu Québec
Enforces the provisions of the Tobacco Tax Act that govern the importation, transportation, storage and sale of tobacco. In addition, since 2006, the sale of tobacco at a price below the Tax expense is prohibited.
— 34 people conduct investigations.
— More than 3 000 inspections annually.
Police forces
Enforcement and investigations by the Sûreté du Québec and municipal police forces to dismantle illegal networks.
— 6 police teams (66 people) of which five are mixed regional squads.
— Municipal police forces carry out other investigations throughout Québec.
Ministère de la Santé et des Services sociaux: health component
Activities (inspections of bars, restaurants, schools, etc.) focus on compliance with the Tobacco Act, but some information is sent to police forces.
— 30 people are assigned to information/prevention campaigns, investigations and inspections, of whom five are involved directly in the fight against contraband tobacco.
Federal partners
— Royal Canadian Mounted Police
— Canada Revenue Agency
— Canada Border Services Agency
Their concerted actions enable:
Revenu Québec
Tax recovery and remedies under the tax laws
Director of Criminal and Penal Prosecutions
Criminal and penal prosecutions

- **Greater police presence**

To more effectively combat the illegal tobacco trade, the presence of police will be bolstered throughout Québec.

The goal is to:

— cut off the supply of raw materials intended for illegal manufacturers;

— intercept contraband products from the United States;

— counter local contraband networks.

- **Cut supply to criminal networks**

A new mixed regional squad coordinated by the Sûreté du Québec will be set up in Montérégie.

It will combat the illegal networks that use the proceeds from the sale of contraband tobacco to fund other illegal activities such as the arms and drug trade.

- **Intercept contraband products from the United States**

More police officers will be stationed in the Valleyfield region to intercept contraband products from the United States, the main source of supply of illegal distribution networks.

- **Counter local contraband networks**

More investigations of small local contraband networks will be carried out by police officers in those Québec municipalities most affected by the phenomenon of contraband tobacco.

Results of the fight against the illegal tobacco trade

The actions taken by ACCES tabac have had the expected results on smugglers in recent years, as shown by certain indicators.

This program was mentioned many times at international conferences on contraband tobacco and information exchange. The federal government drew on it to set up its own interdepartmental team on matters concerning tobacco.

Results of activities under ACCES tabac[1]
(millions of dollars)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Total
Value of seizures	4.3	1.3	8.7	8.2	11.3	15.2	**49.0**
Assessments	7.5	33.8	9.3	45.1	46.7	53.6	**196.0**
Fines	n.a.	0.5	0.9	1.7	12.1	7.1	**22.3**

n.a. Not available.
1 Excludes activities of the Ministère de la Santé et des Services sociaux carried out with a public health objective rather than a tax recovery objective.
Sources: Revenu Québec and Ministère de la Sécurité publique. Compilation by the Ministère des Finances.

Since 2007-2008, more than 3 000 inspections have been carried out annually in stores.

The type of inspection has changed over the years since systematic inspections failed to give significant results. Accordingly, a new strategy implemented in 2007-2008 helped detect more offences, causing the infraction rate to rise from 4.9% to 19.9%. However, this type of inspection requires more time, hence the smaller number for the same period.

Results of inspection activities
(units)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Total
Inspections	2 725	4 600	4 354	7 835	3 197	3 517	**26 228**
Infractions	332	594	410	387	635	572	**2 930**
Infraction rate (%)	12.2	12.9	9.4	4.9	19.9	16.3	**12.6**

Sources: Revenu Québec and Ministère de la Sécurité publique. Compilation by the Ministère des Finances.

Recent operations

The Machine operation, carried out June 3, 2009 by the Service de police de la Ville de Montréal in cooperation with the Sûreté du Québec, the Royal Canadian Mounted Police and the Kahnawake Mohawk Peacekeepers, resulted in the dismantling of a network of drug traffickers and an illegal cigarette manufacturing plant located in Kahnawake. In addition to the drugs and tobacco seized, almost $3.5 million in cash was found on site. Fifty-five people were arrested.

On March 29, 2009, as part of the Château project, investigators of the Royal Canadian Mounted Police, jointly with officers of the Sûreté du Québec, officers from the police departments of the Ville de Québec and the Ville de Lévis, as well as the Service de police autochtone de la communauté de Wendake, arrested 22 people involved in the illegal trade of tobacco products and in drug trafficking.

Impact on revenue

The removal of the Cornwall border post and the implementation of a new Sûreté du Québec team in the Valleyfield region have hampered the supply of tobacco for smugglers. The scarcity of illegal products has resulted in an increase in legal sales of tobacco products, which should raise the revenue from the specific tax on tobacco products by $94 million for 2009-2010.

4. INCREASE OUR REVENUES TO FUND PUBLIC SERVICES

In the 2010-2011 Budget, the government is setting effort from taxpayers to return to budget balance in 2013-2014 at $4.3 billion. This amount includes the health contribution, which will produce $0.9 billion a year in 2013-2014 to bridge part of the gap between forecast growth in health spending and program spending growth.

Besides the health contribution, the effort from taxpayers will be provided by individuals ($2.5 billion in 2013-2014) and businesses ($0.8 billion in 2013-2014).

Most of it will be obtained by:

— raising the QST rate;

— increasing temporarily the compensatory tax on financial institutions;

— revising Québec's mining duties regime;

— applying user fees, with the implementation of the policy for the funding of public services.

TABLE 17

Efforts to return to balanced budgets, 2010-2011 to 2013-2014[F]

(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
THE GOVERNMENT'S EFFORT				
Departments and organizations	1 152	2 864	4 694	6 649
Public organizations	80	240	365	530
Measures to combat tax evasion and tax avoidance	320	555	875	1 200
Subtotal	**1 552**	**3 659**	**5 934**	**8 379**
Additional funding of health institutions	– 180	– 575	– 995	– 1 445
Subtotal	**1 372**	**3 084**	**4 939**	**6 934**
TAXPAYERS' EFFORT				
Individuals	421	1 553	2 329	2 536
Health contribution	180	575	945	945
Subtotal	**601**	**2 128**	**3 274**	**3 481**
Businesses and others	230	377	653	796
Subtotal	**831**	**2 505**	**3 927**	**4 277**
Total effort identified	**2 203**	**5 589**	**8 866**	**11 211**
Balance to be eliminated[1]	—	311	324	1 051
TOTAL EFFORT	**2 203**	**5 900**	**9 190**	**12 262**

F: Forecasts.

1 Includes the balance of the fund for financing health-care institutions, amounting to $50 million and $500 million respectively, to be eliminated in 2012-2013 in 2013-2014.

4.1 Increase in the Québec sales tax

The government has targeted the sales tax to raise the revenue needed to fund public services. To do so, the government is moving gradually.

— In March 2009, the government announced that the rate of the Québec sales tax (QST) would be raised by one percentage point as of January 1, 2011.

— In the 2010-2011 Budget, the government is announcing a second increase of one percentage point in the QST. This increase will take effect January 1, 2012.

4.1.1 Consensus behind the choice of the sales tax made in March 2009

The decision announced in March 2009 to increase the QST by one percentage point on January 1, 2011, is a major step towards returning to balanced budgets. This increase will reduce the deficit by $400 million in 2010-2011 and $1.5 billion the following years.

❑ The pre-budget consultation

The government's decision to raise the sales tax was supported by public finance specialists. They favour the use of consumption taxes since they are less damaging to the economy than income taxes and capital taxes. During the pre-budget consultation – whether during meetings or in the course of the online consultation – the same observation was made many times.

The advisory committee on the economy and public finances praised the government's choice:

— In recent years, significant efforts have been made in Québec to limit the consequences of this structural problem. The harmful effects on economic growth of the tax on capital explain why this tax is being eliminated in Québec – after most jurisdictions. Other initiatives taken in the past by the Québec government also seem to be headed in the right direction. The committee is referring to the reduction in direct taxes and the upcoming rise in the QST, announced in 2007 and 2009 by the current government.[4]

For Québec, the sales tax is an effective way to reduce the budget deficit in the short term and, in the longer term, fund public spending.

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4 Advisory Committee on the Economy and Public Finances, *Québec and Its Challenges. Possible Solutions: Spend More Effectively and Better Fund Our Public Services*, advisory committee on the economy and public finances, Québec, January 2010, page 74.

- **A less damaging tax for the economy in the long run**

Analyses carried out by the Ministère des Finances confirm that value-added taxes, like the QST, have fewer negative impacts on wealth creation than other forms of taxation. These studies corroborate those on the same subject done by the Organization for Economic Cooperation and Development (OECD).

4.1.2 Raise the QST to 9.5% January 1, 2012

For the government, it is imperative to return to balanced budgets. But this objective must be achieved while minimizing negative impacts on economic development.

In this budget, the government is announcing that the QST rate will rise by one percentage point as of January 1, 2012, i.e. from 8.5% to 9.5%.

Including the increase that is to take effect next January, the increase in the sales tax will generate additional budgetary revenue of $3 billion on an annual basis.

TABLE 18

Additional revenue generated by increases in the Québec sales tax
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Increase of 2 percentage points					
- 1 point January 1, 2011	400	1 500	1 550	1 600	1 650
- 1 point January 1, 2012	—	400	1 500	1 550	1 600
TOTAL	**400**	**1 900**	**3 050**	**3 150**	**3 250**

❑ Maintain the competitiveness of Québec's tax system

Despite the rise in the QST, Québec's tax system will remain more competitive than before. The actions the government has taken since 2003 decidedly offset the rise in the QST.

■ The decline in the tax burden since 2003

The decline in Québec's tax burden since 2003 is greater than the rise in the sales tax.

The government has in fact implemented:

— personal income tax reductions as well as improvements in support for children and work incentive measures, totalling $5.4 billion on an annual basis;

— reductions in the corporate tax burden that will reach $2 billion in 2011-2012, after the elimination of the tax on capital January 1, 2011.

■ A more efficient tax system

The tax system is much more efficient than in 2003, with greater emphasis on consumption taxes compared to taxes on income and capital that undermine the incentive to work and discourage investment.

■ The combined rate of the QST and the GST

The combined rate of the QST and the GST will reach 14.975% in 2012. It will thus be comparable to the 15.025% rate in effect in 2005 before the goods and services tax (GST) rate was reduced from 7% to 5% (one percentage point in July 2006 and January 2008).

Compared to the other provinces, Québec's competitive position will not be affected by the rise in the QST, because the differences will not be great enough to have a significant impact on consumption and cross-border trade.

Lastly, Québec companies generally are entitled to full input tax rebates, which is not the case in some provinces.

TABLE 19

QST and GST rates
(per cent)

	QST	GST	Combined rate[1]
2005	7.5	7.0	15.025
2012	9.5	5.0	14.975

1 This rate applies to a tax base including the GST.

4.1.3 Compensatory measures

The objective of the rise in the QST is to collect additional revenue to reduce the budget deficit, while minimizing the impact on households, notably because the impact is spread over the entire year while essential goods, like basic food, rent, health and education services, are not taxed.

However, the rise in the QST could have undesirable effects on low-income households as well as on the new housing market.

— Low-income households may be impacted to a greater degree by the rise in the tax since their budget is relatively limited, in particular for purchases of furniture or clothing.

— On the new housing market, the rise in the QST could discourage home-ownership, given the amount of the additional tax payable at the time of purchase. In the case of a young middle-class family, the purchase of a $200 000 new home will cost $1 321 more in 2011 and $2 642 more in 2012.

For these reasons, the 2010-2011 Budget contains special measures to compensate low-income households and help new home buyers regarding the rise in the QST. These measures concerning low-income households are included in the tax credit for solidarity, which is discussed in the section on strengthening our social safety net.

❑ Compensation for new home buyers

Since 1994, new home buyers have been granted a partial rebate on the QST. A similar rebate of the GST is also available.

— Currently, the rebate for a new home priced at $200 000 or less is 36% of the QST paid regarding the purchase. In 2011, purchasers paying $200 000 for a new home will receive the maximum rebate of $6 316.

— Above $200 000, the rebate reduces gradually and becomes zero at a price of $225 000.

To avoid hindering home-ownership for middle-class households, the QST rebate paid upon the purchase of a new home will be increased as of January 1, 2011. This measure will compensate households at the same time as the rise in the QST.

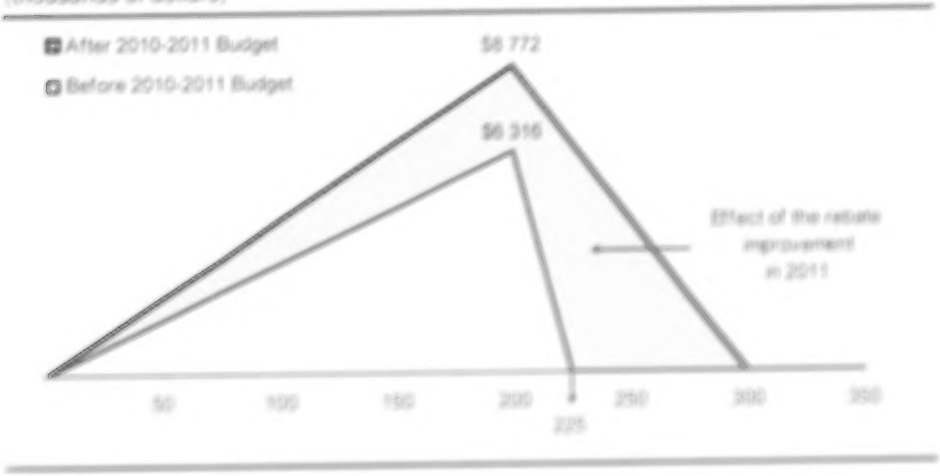
— The rate of the QST rate will rise from 36% to 50%. The maximum rebate for a new home will increase from $6 316 to $8 772 in 2011.

— A rebate will be granted to buyers of a new home whose value is less than $300 000, compared with $225 000 currently.

CHART 4

Rebate of the Québec sales tax upon the purchase of a new home in 2011 – Before and after the 2010-2011 Budget

(thousands of dollars)



- **Keep home-ownership accessible for middle-class families**

Roughly 12 500 buyers will benefit from this improvement that will reduce the amount of QST payable by $45 million.

— For homes with a value below $248 000, the rise in the QST will be fully offset.

— For homes whose value is between $248 000 and $300 000, the compensation will be partial, representing:

  — 95% of the rise in the tax for $250 000 homes;

  — 43% of the rise in the tax for $275 000 homes.

TABLE 20

Impact of the rise in the QST and the improvement to the rebate allowed buyers of new homes

(dollars)

	2010	2012			
Price of the new home	**Net QST payable**	**Two % point rise in the QST[1]**	**Rebate improvement**	**Net impact of the rise in the QST**	**Net QST payable**
150 000	– 7 430	– 1 981	+ 2 059	+ 77	– 7 353
175 000	– 8 669	– 2 312	+ 2 402	+ 90	– 8 579
200 000	– 9 907	– 2 642	+ 2 745	+ 103	– 9 804
225 000	– 17 415	– 4 644	+ 7 353	+ 2 709	– 14 706
247 830	**– 19 102**	**– 5 115**	**+ 5 115**	**—**	**– 19 102**
250 000	– 19 350	– 5 160	+ 4 902	– 258	– 19 608
275 000	– 21 285	– 5 676	+ 2 451	– 3 225	– 24 510
300 000	– 23 220	– 6 192	—	– 6 192	– 29 412

1 The QST rate is 9.5%.

4.2 Temporary increase in the compensatory tax on financial institutions

Restoring public finances to a solid footing implies that everyone must contribute to balancing the budget, depending on their ability to pay.

The financial sector is a major part of Québec's economy. Its GDP accounting for over 6% of the province's economic activity. In 2007, among the businesses in this sector, the sales of financial institutions in Québec exceeded $100 billion.

Year in year out, financial institutions make substantial profits. Over their last four fiscal years, the major Canadian banks and the Mouvement Desjardins reported net profits totalling in excess of $66 billion.

❑ A sector less impacted by the recession

Financial institutions doing business in Québec were, as a general rule, less impacted by the recession than businesses in other sectors or their international competitors. Indeed, many of them announced substantial increases in earnings for the first quarter of 2010, compared to the same period the year before.

To have financial institutions participate further in the effort to eliminate the deficit, the 2010-2011 Budget stipulates that compensatory tax on financial institutions will be increased temporarily.

This increase will take effect the day following the 2010-2011 Budget Speech and will apply until March 31, 2014.

Accordingly, the rates that apply to two of the three bases of the compensatory tax, namely insurance premiums and salaries paid, will be raised.

— For the implementation period of the measure, the rates will rise from:

  – 2.00% to 3.90% on salaries paid by banks, loan companies, trust companies and securities trading companies;

  – 0.35% to 0.55% on premiums of insurance companies and on amounts established regarding insurance funds;

  – 2.50% to 3.80% on salaries paid by savings and credit unions;
  – 1.00% to 1.50% on salaries paid by other financial institutions.

TABLE 21

Compensatory tax on financial institutions – Current rates and rates in force until March 31, 2014
(per cent)

	Base	Applicable rate		
		Current	Increase	Total
Banks, loan companies, trust companies and securities trading companies	Paid-up capital	0.25	—	0.25
	Salaries paid	2.00	1.90	3.90
Insurance companies	Premiums[1]	0.35	0.20	0.55
Savings and credit unions	Salaries paid	2.50	1.30	3.80
Other financial institutions	Salaries paid	1.00	0.50	1.50

1 Including amounts established regarding insurance funds.

Over its period of application, this measure will add $471 million to the government.

TABLE 22

Financial impact of the temporary increase in the compensatory tax on financial institutions
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	Total
Temporary increase in the compensatory tax on financial institutions	112	115	120	124	471

The increase in the compensatory tax represents an increase of almost 9% in the average tax burden of financial institutions, which amounts to almost $1.3 billion annually in Québec.

Financial institutions and the sales tax system

Québec

In the Québec sales tax (QST) system, most financial services, including financial and market intermediation services and risk pooling services, are zero-rated. Accordingly, suppliers of financial services can claim a rebate of the QST paid in respect of their purchases of property and services (inputs). This rebate is designed to maintain the competitiveness of financial institutions in Québec and avoid a situation where their purchases and some of their activities are shifted outside Québec.

However, in the interests of neutrality towards other economic sectors and to reflect the cost of this rebate for the government, a compensatory tax is applied on financial institutions to keep their overall tax burden constant.

Ontario and British Columbia

British Columbia and Ontario have announced that they will harmonize their retail sales tax with the federal goods and services tax (GST).

Under the new system, the tax burden on financial institutions will rise substantially. Financial services will be covered by an exemption under the new harmonized sales tax (HST). However, businesses that carry out exempted activities are not entitled to the input tax credit. They will therefore have to pay the new HST on their purchases of goods and services, which will raise their tax burden.

4.3 Revision of Québec's mining duties regime

Québec's mineral potential is among the most attractive in the world. In addition to a vast quantity of resources, Québec also offers a wide variety with some thirty minerals currently being developed.

The mining industry is a major economic engine for Québec particularly remote regions where the largest deposits are generally located.

— In 2008, the value of Québec's mineral shipments exceeded $6 billion and the industry invested more than $2 billion.

— Exploration expenditures grew substantially between 2003 and 2008, rising from $134 million to $526 million. This trend was interrupted in 2009, but exploration expenditures should once again pick up as the economy recovers.

Quebecers are the owners of these riches and must receive a fair share of the profits from the development of non-renewable natural resources.

In Québec's Mineral Strategy, released in June 2009, the government undertook to reassess the mining duties regime to ensure that the royalties paid by the industry in return for the development and depletion of mineral resources are representative of the real value of the resources extracted.

The government thoroughly examined the mining duties regime to ensure:

— businesses maintain their competitiveness;

— spinoffs for Québec are maximized;

— that Quebecers receive a fair share of the profits from development of the resources they own.

4.3.1 The existing mining duties regime

Québec's mining duties regime establishes mining royalties on the basis of operators' mining profits. The existing mining duties rate is 12% of annual profit.

— Under the regime, the government makes a variety of allowances available to operators to recognize the expenditures incurred and stimulate certain specific mining activities such as exploration, ore processing and the development of new mines. These allowances can be used to reduce or eliminate mining duties payable by mining operators.

— The existing regime also stipulates a credit on duties refundable for losses that enables operators to obtain a refund if they post mining losses for a fiscal year. However, this credit is limited to exploration, mineral deposit evaluation and mine development expenditures incurred during the fiscal year.

TABLE 23

Illustration of how the existing regime works

	Gross production value
	Less:
	Production costs
	Administration expenses
=	**Profit before allowances**
	Less:
	Depreciation allowance
	Allowance for exploration, mineral deposit evaluation and mine development
	Additional exploration allowance
	Processing allowance
	Additional depreciation allowance
	Additional allowance for a northern mine
=	**Mining profit**
x	**Rate of mining duties or credit**
=	**Mining duties or credit on duties refundable for losses**

❑ Main observations

In recent years, the yield from the mining duties regime has been unsatisfactory for the government, for a variety of reasons.

— Economic fluctuations have from time to time reduced the profits of mining companies. Québec's mining duties regime stipulates mining duties on the basis of profits earned on operators' mining activities.

— The regime favours certain types of activities such as ore processing and recognizes the substantial investments by operators. The existing terms and conditions are too generous in some respects.

  — Accordingly, operators that have invested massively in recent years have been able to substantially reduce their mining duties burden.

  — Many mining operators are in a position to reduce their mining duties payable to zero for many years in a row. This situation is of even more concern since some metals have reached record prices in recent years.

TABLE 24

Return from Québec's mining duties regime[1]
(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total
Gross production value	2 554	2 660	3 127	3 784	4 376	16 502
Number of producing companies	26	24	23	25	20	n.a.
Number of producing companies reporting mining duties payable	13	7	7	7	10	n.a.
Mining duties reported	23.4	43.0	68.4	48.9	112.8	296.5
Credits for duties claimed[2]	– 18.0	– 15.0	– 17.4	– 30.1	– 42.5	**– 122.9**
NET YIELD	**5.4**	**28.0**	**51.0**	**18.8**	**70.3**	**173.6**

1 According to the returns of operators compiled based on the date of the fiscal year end. For example, the figures for an operator whose fiscal year ended June 30, 2008 are allocated entirely to fiscal year 2009. These figures are different from those shown in the government's public accounts, which are recorded using an encashment and disbursement approach adjusted for accounts payable.

2 Including credits for duties claimed by mining companies that do not operate a mine (juniors).

Note: Since figures are rounded, they may not add up to the totals shown.

Source: Data from the Ministère des Ressources naturelles et de la Faune compiled by the Ministère des Finances du Québec.

The analyses have shown that the existing terms and conditions of the mining duties regime are inadequate to achieve all the objectives the government has set, in particular regarding the overall yield from the system.

4.3.2 A revised regime adapted to the new realities of the mining sector

Since it was introduced, Québec's mining duties regime has been changed significantly a number of times, in particular in 1965, 1975, 1985 and 1994. Aside from some specific changes, the 1994 reform established the mining duties regime that we know today.

Over the last 15 years, the mining industry's environment has undergone major economic and organizational changes.

— Companies are more innovative, more productive, and can achieve significant economies of scale in view of the consolidation of several mining companies into multinationals developing deposits around the world.

— Moreover, exploration work in Québec has resulted in a number of very promising discoveries that open the door to mining development in new territories as well as the development of a new mineral substance in Québec: diamonds.

In this context, the government is bringing forward a substantial revision of the mining duties regime with the objectives of:

— improving the regime's profitability for the government, without compromising the competitiveness of businesses;

— simplifying the application of the regime and reducing the administrative burden on businesses and government;

— stimulating mining development in northern Québec;

— adapting the regime for the development of diamonds in Québec.

❑ Overview of the new terms and conditions of the mining duties regime

The application details of the regime have been examined and reviewed where needed to achieve the regime's objectives. The following table shows the main changes to the mining duties regime.

TABLE 25

Main changes to the mining duties regime[1]

	Operation of the regime	Existing parameters	New parameters
	Basis of taxation	*Taxation on corporate basis*	*"Mine-by-mine" taxation*
	Gross production value		
	Less:		
	Production costs	– Mine development expenses after production are considered current expenditures	– New allowance for mineral deposit evaluation and mine development after production (see Table 26)
	Administration expenses	– Eligible expenses 100% deductible	– No significant change
=	**Profit before allowances**		
	Less:		
	Depreciation allowance	– 100% rate	– 30% rate for property acquired after the day of the 2010-2011 Budget Speech
	Allowance for exploration, mineral deposit evaluation and mine development	– Eligible expenses 100% deductible and can give rise to the credit on duties refundable for losses – Increase of 25% of surface exploration expenditures incurred in the Mid-North and the Far North	– Replaced with three separate allowances (see Table 26) – New definitions of expenses eligible for these allowances drawing on those used in the *Taxation Act*
	Additional exploration allowance	– Additional 50% deduction for surface exploration and underground core drilling expenses regarding expenses incurred outside a mining lease or concession	– Allowance eliminated
	Processing allowance	– Rates of return on assets used in processing applicable where the operator does: • only concentration (including gold or silver smelting): 8% • smelting or refining (excluding smelting of gold or silver): 15% – Limit of 65% of mining profit	– Rates of return on assets used in processing applicable where the operator does: • only concentration (including gold or silver smelting): 7% • smelting or refining (excluding smelting of gold or silver): 13% – Limit of 55% of mining profit
	Additional depreciation allowance	– 15% of the capital cost of certain processing assets – Subject to certain limits	– No change
	Additional allowance for a mine located in Northern Québec	– Additional allowance for a northern mine • Applicable up to the operator's profit for new mines located in the Far North • Based on certain processing assets	– Far North: maximum $5 million per mine – Mid-North: maximum $2 million per mine – Applicable against the profit of a new mine during the 36-month period starting the day the mine enters commercial production
=	**Mining profit**		
x	**Mining duties rate**	– 12% rate	– Gradual increase from 12% to 16%
=	**Mining duties or credit on duties refundable for losses**	– Rate of credit on duties of 12%	– Gradual increase in the rate of the credit on duties from 12% to 16%

1 The changes shown are not exhaustive. The details are shown in the *Additional Information on the Budgetary Measures, 2010-2011 Budget*.

- **Calculation of annual profit according to a "mine-by-mine" approach**

Under the existing regime, the mining duties payable by an operator are determined on the basis of mining profit established on a consolidated basis for all and operator's mining activities.

Henceforth, an operator's annual profit will be calculated using a "mine-by-mine" approach. Accordingly, losses relating to one mine may not be applied to reduce the profits of another mine. This change is one of the initiatives that will enable the government to obtain a fair share of the profits from developing mineral resources. regardless of the operator's corporate structure.

- **Depreciation allowance**

The rate of the depreciation allowance on property relating to mining operations will be reduced from 100% to 30% for property acquired after the day of the 2010-2011 Budget Speech. This change is designed to make the deduction more representative of the true depreciation of property. Accordingly, all the expenditures of operators that can be capitalized will continue to be depreciated, but over a period that more closely approaches the useful life of the property.

- **Replacement of the allowance for exploration, mineral deposit evaluation and mine development with three separate allowances**

The definitions and treatment of exploration, mineral deposit evaluation and mine development expenses incurred by an operator will be thoroughly reviewed. This will help simplify the application of the regime, both for operators and the government, and adapt the regime to the specific features of the various types of expenses incurred.

Accordingly, the allowance for exploration, mineral deposit evaluation and mine development will be replaced with three separate allowances, namely:

— the exploration allowance;

— the allowance for mineral deposit evaluation and mine development before production;

— the allowance for mineral deposit evaluation and mine development after production.

TABLE 26

Replacement of the allowance for exploration, mineral deposit evaluation and mine development with three separate allowances[1]

	Existing parameters	New parameters
Exploration allowance	– Expenses 100% deductible and can give rise to the credit on duties refundable for losses – Increase of 25% of surface exploration expenses incurred in the Mid-North and the Far North	– Creation of a cumulative account for all the operator's eligible expenses – 25% increase in all exploration expenses incurred in the Mid-North and the Far North – Deduction limited to 10% of mining profits for producing companies – For junior companies, up to 50% of the expenditures incurred during the fiscal year can give rise to the credit on duties refundable for losses
Allowance for mineral deposit evaluation and mine development before production	– Expenses 100% deductible and can give rise to the credit on duties refundable for losses	– Creation of a cumulative account for all the operator's eligible expenses – Expenses 100% deductible and can give rise to the credit on duties refundable for losses
Allowance for mineral deposit evaluation and mine development after production	– Considered current expenditures that cannot be carried over	– Creation of a separate cumulative account for each of the operator's mines – Compulsory deduction of 30% of the cumulative account up to the profit from such mine calculated before certain allowances

1 The changes shown are not exhaustive. The details are shown in the *Additional Information on the Budgetary Measures, 2010-2011 Budget*.

- **Exploration allowance**

In general, the expenses eligible for this allowance are exploration expenses incurred by an operator. The amounts that give rise to this allowance include the 25% increase in expenses incurred in the Mid-North and Far North.

— To recognize eligible expenditures over a full mining cycle while ensuring a minimum amount of royalties for the government, the exploration allowance will be limited to 10% of mining profits for producing companies. This limit will not apply to companies that do not operate a mine (junior companies).

— Eligible expenses that are not deducted for the fiscal year during which they are incurred will be added to a separate cumulative accounts.

For junior companies, operating expenses eligible for the credit on duties refundable for losses will be limited to 50% of the expenditures incurred during the fiscal year.

This change will encourage mining exploration while limiting government support where such exploration does not result in commercial production.

The definition of expenditures giving rise to the 25% increase for expenses incurred in the Mid-North and Far North will be broadened to include all types of exploration rather than just surface exploration. This improvement is designed to intensify all types of exploration, including underground exploration in northern Québec.

Since the expenditures and risks associated with exploration expenses covered by federal or provincial flow-through financing are assumed fully by the investors and not by the company itself, such expenses will be excluded from expenditures giving rise to this allowance as well as from those giving rise to the following two allowances.

- **Allowance for mineral deposit evaluation and mine development before production**

In general, this allowance will consist of mineral deposit evaluation and mine development expenses incurred before a mine enters commercial production, for all the mines operated by the same company.

These expenses may be deducted in full in the fiscal year in which they are incurred and will be eligible for the credit on duties refundable for losses.

- **Allowance for mineral deposit evaluation and mine development after production**

In the existing mining duties regime, mineral deposit evaluation and mine development expenses after production are considered current expenditures. Accordingly, such expenses can be deducted in full for the fiscal year during which they are incurred, but they cannot be carried over to a subsequent fiscal year.

To enable operators to benefit fully from the advantages relating to such expenditures, the expenses incurred will henceforth be added to a separate cumulative account for each mine of an operator. Such operator will have to deduct an amount corresponding to 30% of the balance of the cumulative account in calculating the annual profit of a mine, up to the profit of such mine calculated before certain allowances.

The expenses that can give rise to this allowance will not be eligible for the credit on duties refundable for losses.

- **Elimination of the additional exploration allowance**

To reflect the real cost of exploration expenditures in the calculation of mining profit, the additional exploration allowance will be eliminated for expenses incurred after the day of the 2010-2011 Budget Speech.

In general, this improvement allowed a producing company to claim an additional 50% deduction for surface exploration and underground core drilling expenses regarding expenses incurred outside a mining lease or mining concession.

- **Processing allowance**

The parameters of the processing allowance will be changed to more adequately determine the added value relating to ore processing operations. The historical evolution of economic factors affecting the mining sector, including metal prices and the cost structure of businesses, justify a revision of the parameters of the processing allowance. Accordingly:

— the rate of return for assets used in processing, applicable where the operator does only concentration (including smelting gold and silver), will be reduced from 8% to 7%;

— the rate of return for assets used in processing, applicable where the operator does smelting or refining (excluding smelting gold and silver), will be reduced from 15% to 13%;

— the limit based on mining profit determined before such allowance will be reduced from 65% to 55%.

- **Introduction of the additional allowance for a mine located in Northern Québec**

To foster the development of new mines in the Mid-North and the Far North, a new allowance will be implemented: the additional allowance for a mine located in Northern Québec.

This new allowance may reach:

— $2 million per mine in the Mid-North;

— $5 million per mine in the Far North.

It may be applied once the new mine enters commercial production, for a period of 36 months following that date.

This new allowance will replace the additional allowance for a northern mine. The new allowance will optimize efforts to develop the mining potential of northern Québec, while enabling the government to more accurately forecast its cost.

- **Mining duties rate**

To ensure that Québec receives a fair share of the profits from development of its mineral resources, the mining duties rate will be increased gradually from 12% to 16% as follows:

— 14% as of the day following the day of the 2010-2011 Budget Speech;

— 15% as of January 1, 2011;

— 16% as of January 1, 2012.

The gradual rise in the mining duties rate will allow operators to limit the short-term impact of the increase in mining duties on their operations.

- **Credit on duties refundable for losses**

The rate of the credit on duties refundable for losses will be raised from 12% to 16% according to the same timetable as the rate for mining duties.

4.3.3 Additional benefits for Québec from development of mineral resources

❑ A fair share of the benefits from development of mineral resources

Ultimately, after its revision, the mining duties regime will generate annual revenue of $134 million, representing an increase of $55 million compared to the existing projections of $79 million.

Overall, mining duties payable over the next five fiscal years will reach $570 million, representing additional revenue for the government of more than $240 million. These additional revenues from mining duties will add to the government's efforts to restore balanced budgets.

TABLE 27

Financial impacts – additional revenues from mining duties
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	Total
Revenue forecast						
Current regime	52	61	68	68	79	327
Revised regime	84	100	124	128	134	570
ADDITIONAL REVENUE	**32**	**39**	**57**	**60**	**55**	**243**

Note: Since figures are rounded, they may not add up to the totals shown.

❑ Substantial economic spinoffs for Québec and its resource regions

The mining industry's substantial investments combined with existing operations of companies active in the sector generate substantial economic spinoffs for Québec.

In 2008, the mining industry employed 15 000 people in the course of its current activities in addition to supporting more than 9 000 jobs through its investments. In addition, the activities of businesses in the sector sustained roughly 19 000 indirect jobs for a total of 43 000 jobs in Québec.

Overall, for 2008, the mining industry's direct and indirect economic spinoffs in Québec are estimated at nearly $5 billion.

This represents tax revenues for the Québec government of nearly $400 million for 2008 of which $115 million is generated directly by mining sector businesses.

Over the next five years, companies operating in the mining sector in Québec will as a whole contribute more than $1 billion to the Québec government's revenue, including $570 million in mining duties.

TABLE 28

Tax levies and mining duties paid by the mining industry
(millions of dollars)

	2008-2009	Five-year projection[1]
Tax levies – corporate tax system	115[2]	515
Mining duties	70	570
TOTAL	185	**1 085**

1 2010-2011 to 2014-2015
2 Amounts reported for fiscal years ended in 2008.

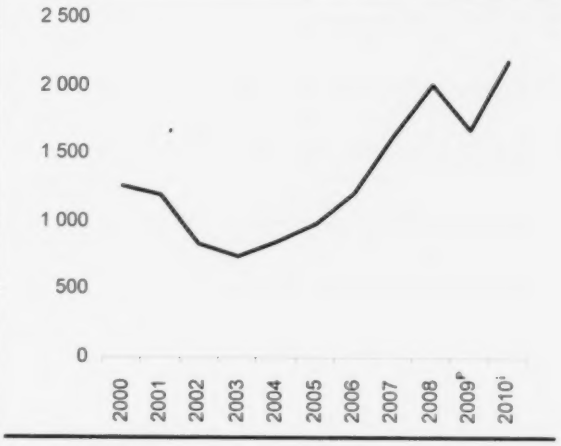
The mining industry's investments in Québec

Since 2003, the mining industry's investments have grown substantially in Québec. According to business intentions for 2010, the sector's total investments should approach $2.2 billion for the year.

The growth in mining exploration expenditures by companies has been even more remarkable, rising from $134 million in 2003 to $526 million in 2008. According to the intentions surveyed for 2010, exploration expenditures should reach $467 million for the year, up 34% compared to the slowdown in 2009.

Total mining industry investments in Québec – 2000 to 2010

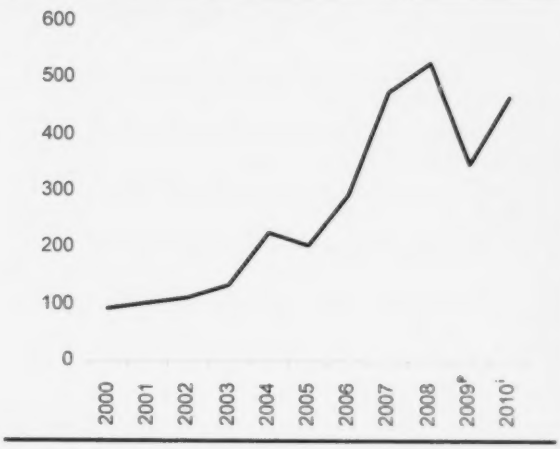
(millions of dollars)



P: Preliminary data.
I: Intention.

Mining exploration and development expenditures – 2000 to 2010

(millions of dollars)



P: Preliminary data.
I: Intention.

4.4 User fees: implementation of the policy for the funding of public services

As part of the efforts to restore sound public finances, user fees are a major issue. With the 2010-2011 Budget, the government is implementing the Policy for the funding of public services, whose components were released in the 2009-2010 Budget.

The rate-setting practices the policy puts forward will help achieve the objectives of the Plan to return to budget balance.

4.4.1 Insufficient revenue from user fees

Adequate funding of public services ensures the necessary quality and quantity of services, as well as securing their long-term viability. Such funding must also provide the government with sufficient revenue to fund all the services provided.

For example, in 2008-2009, revenues from user fees represented 11.7% of the total cost of all government services (fee-based and otherwise).

— This was down 0.8% compared to 2005-2006.

— In absolute value, this difference represents $575 million.

CHART 5

Proportion of user fee revenue according to cost for all public services
(per cent)

1 Prescription drug insurance, farm income stabilization insurance and crop insurance. Excluding the SAAQ, CSST and the Québec parental insurance plan that was not implemented until 2006.
2 Early childhood centres and family daycare facilities.

Implementation of the policy for the funding of public services will reverse the current trend and ultimately protect our public services.

4.4.2 Principles of the policy for the funding of public services

The policy for the funding of public services seeks to improve the funding of services through better fee-setting practices to maintain their quality and ensure transparency and accountability in the fee-setting process.

Applying to all public bodies that offer goods and services to the public, its purpose is to ensure the long-term viability of public services and their accessibility, to improve the well-being of Quebecers.

The policy is based on the following principles:

— the rigour of the method of funding the services that the government offers, in particular through a knowledge of the cost of fee-based services, the enhancement of services and the evaluation of public policies that include a user fee component;

— efficiency and fairness of resource allocation, in particular by means of the allocation of user fee revenues to fee-based services and recognition of the financial capacity of low-income households;

— transparency, in particular from the standpoint of the availability of information on the funding process and the obligation to achieve accountability, for the sake of striking a balance between reasonably accurate details and the desired informational objective.

4.4.3 Actions taken

Overall, application of the policy for government departments and organizations will be based on five actions:

— determine the method of funding public goods or services, whether through user fees or general revenues, taxes in particular;

— determine the cost of fee-based services;

— set fees and index them annually within the existing regulatory and legislative framework, starting from an established funding level;

— allocate the amounts paid by users to the funding of fee-based services;

— provide an accounting of fee-setting practices.

4.4.4 Bill on the funding of public services

The government is announcing that a bill on the funding of public services will be tabled.

This bill will frame the implementation of fee-setting practices advocated by the policy for the funding of public services.

In particular, the bill:

— introduces the obligation to reassess the costs of fee-based services at least every five years;

— stipulates annual indexing of certain fees;

— stipulates the possibility for the government to set up special funds that will be allocated to the funding of public services for which fees are collected by a department or budgetary organization.

4.4.5 Concrete initiatives

By implementing the policy for the funding of public services and tabling the bill on the funding of public services, the government, by means of concrete initiatives, is bolstering its objective to ensure adequate funding of public services.

With these new fee-setting practices, each citizen will henceforth be in a position to know the costs of the public services he or she receives, how much is paid by the user and how much by society.

Only the fee revenues from rents on natural resources, for instance, electricity and mines, will be paid to the consolidated fund or the Generations Fund and will contribute to restoring order to public finances.

5. FOR A MORE EFFICIENT AND BETTER FUNDED HEALTH-CARE SYSTEM

As regards the funding of health-care services, we have reached the time for a decision.

Since 2003, 54% of new government spending, or $10 billion, has gone to the public health-care system. In 2010-2011, the sums allocated to the Ministère de la Santé et des Services sociaux totalled $28 billion, representing 45% of the government's program spending.

Given the ever widening gap between growth in government revenues and rising health-care costs, there is no way to maintain sound public finances and reduce the debt burden without tackling the challenge of funding our public health-care system.

This is a daunting challenge: we must ensure stable funding for our health-care system without jeopardizing the government's other missions, and do so with a view to restoring budget balance by 2013-2014 and maintaining it durably thereafter.

As part of the 2010-2011 Budget, the government is adopting a fair and realistic approach, which is explained in the budget document *For a More Efficient and Better Financed Health-Care System*.

The government is undertaking major initiatives to:

— better control the growth of health-care costs, in particular by improving performance and efficiency in the delivery of services;

— take into account each individual's ability to pay, through an additional contribution from users designed to orient them and encourage them to take greater responsibility in respect of their consumption of health care, this contribution being scheduled to take effect beginning in 2010-2011;

— provide for better information and greater transparency by introducing health accounts.

Thanks to these initiatives, for the period from 2011-2012 to 2014-2015, growth in total health-care spending can be maintained at 5.0% per year, a level making it possible to ensure quality, accessible services, while also remaining within the limits of the taxpayers' ability to pay.

TABLE 29

Total spending for health care[1] and sources of funding, 2009-2010 to 2013-2014[P]
(millions of dollars and percent)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Total spending for health and social services					
Program spending	– 26 980	– 27 967	– 28 985	– 30 034	– 31 121
% change	*5.3*	*3.7*	*3.6*	*3.6*	*3.6*
Other health-care spending.	– 4 523	– 4 976	– 5 612	– 6 285	– 6 998
% change	*5.0*	*10.0*	*12.8*	*12.0*	*11.3*
Total, health and social services spending	**– 31 503**	**– 32 943**	**– 34 597**	**– 36 319**	**– 38 119**
% change	**5.3**	**4.6[2]**	**5.0**	**5.0**	**5.0**
Sources of funding					
Other taxes from the Consolidated Revenue Fund[3]	15 677	16 277	16 972	17 550	18 171
Sources dedicated to funding health care[2]	15 826	16 486	17 050	17 774	18 503
New contributions required to fund health-care institutions and maintain the growth in health-care spending at 5%	—	180	575	995	1 445
Total sources of funding	**31 503**	**32 943**	**34 597**	**36 319**	**38 119**
% change	**5.3**	**4.6[2]**	**5.0**	**5.0**	**5.0**

P: Preliminary results for 2009-2010 and projections for subsequent years.
1 Total spending of the Ministère de la Santé et des Services sociaux and health and social services institutions.
2 Total health-care spending for the 2009-2010 fiscal year includes an exceptional amount of $126 million attributable to the costs of the A (H1N1) flu pandemic. When this amount is excluded, growth in health-care spending for 2010-2011 is 5%.
3 For the purposes of the health accounts, the deficits of the establishments in the health and social services network are covered by the other taxes from the Consolidate Revenue Fund.

5.1 Encouraging better performance by the health-care system

To improve the health-care system's performance, the Ministère de la Santé et des Services sociaux will focus its efforts on three areas.

Thus, the government will undertake:

— a global approach to optimization of work processes that will be applied in each institution;

— a rationalization of technological and computer infrastructures and the implementation of promising new technologies. The implementation of the e-health file will be accelerated;

— a review of governance in the network, particularly the links between the Ministère de la Santé et des Services sociaux, the health-care agencies and the institutions, with a view to improving efficiency.

5.2 New financial contributions for maintaining accessibility

In the current context of public finances, the government is opting for an additional approach to health-care funding in order to guarantee the sustainability of our public health-care system for present and future generations.

Among the possible options for dedicating new sources of revenue to funding health care, the government is introducing a health contribution.

5.2.1 Introduction of a health contribution beginning July 1, 2010

In the interests of upholding the principles of universality, accessibility and comprehensiveness in the public health-care system, the government must mobilize all Québecers to address the issue of funding for quality health care that is accessible to all.

In this context, the government is announcing the introduction, beginning July 1, 2010, of a health contribution levied on individuals at the time they file their income tax return and payable in spring 2011. In 2012-2013, the health contribution will allow $945 million to be allocated to the funding of health-care institutions, via a fund dedicated to health.

❑ A contribution per adult of $25 in 2010, $100 in 2011 and $200 in 2012

Unlike a tax on income or a surtax, the health contribution will be a general contribution of $25 per adult in 2010,[5] $100 in 2011 and $200 in 2012.

The health contribution is a simple and effective way to provide substantial funding for the health-care institutions, but without demanding an excessive effort on the part of each taxpayer.

❑ An exemption for low-income households

Households whose family income is below the exemption thresholds provided for under the Québec public prescription drug insurance plan will be exempted from paying the health contribution. These income thresholds correspond to the income of seniors receiving the maximum guaranteed income supplement paid by the federal government.

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5 The health contribution would be $50 in 2010. However, since it will not begin to apply until July 1, 2010, it will be $25.

— For example, for 2009, the income thresholds under the public prescription drug insurance plan are as follows:

  — $14 040 for a person living alone;

  — $22 750 for a couple without children or a single-parent family with one child;

  — $25 790 for a couple with one child or a single-parent family with more than one child;

  — $28 595 for a couple with more than one child.

TABLE 30

Parameters of the health contribution
(dollars)

	2010	2011	2012
Health contribution per adult	25	100	200
Income thresholds above which the health contribution becomes payable[1]			
- Person living alone	14 320	14 605	14 895
- Couple without children or single-parent family with one child	23 205	23 670	24 145
- Couple with one child or single-parent family with more than one child	26 305	26 830	27 365
- Couple with more than one child	29 165	29 750	30 345

1 The thresholds are given for purposes of illustration. Actual data will be available later.

Nearly 3.2 million households will pay the health contribution, thereby generating annual revenues of $945 million in 2012-2013.

TABLE 31

Financial impact of the health contribution
(millions of dollars)

	Full year	2010-2011	2011-2012	2012-2013
Health contribution	945	180	575	945

The sums collected by the government by means of the health contribution will make it possible to cover a part of the widening gap between the growth in health-care spending and the growth in revenues currently used to fund such spending. These sums will be paid to the institutions based on their performance and could

be used to continue developing front-line services and provide support for promising projects designed to improve the system's performance.

5.2.2 A health deductible to orient citizens in their consumption of services

Inspired by one of the proposals formulated in 2008 by the Task Force on the Funding of the Health System (the Castonguay Report), the government will study the advisability of introducing a health deductible within a few year in order to orient citizens in their consumption of health-care services.

❑ A deductible offering advantages

In the present context, the introduction of a health deductible would offer undeniable advantages:

— It would encourage citizens to take responsibility for their use of health-care services.

— It would orient users of the system in the direction considered the most appropriate by public health-care authorities, by adjusting the amount charged depending on where the service is consumed.

❑ A health deductible would not hinder access to health care

Unlike user fees, the health deductible would not hinder access to health care and would make it possible to exempt the most disadvantaged. It would not infringe on the right to health care or the principle of equality between citizens, because it would not be collected at the service outlet, but instead the following year through the income tax return.

This approach would not call into question the principles of accessibility and solidarity that characterize our health-care system. Funding of the system, to which each citizen would contribute according to his or her means, would remain public.

❑ The health deductible and the *Canada Health Act*

Québec is of the opinion that a health deductible would not restrict the accessibility of the health-care system. What is sought is an orienting effect, not a moderating effect: the purpose is to encourage delivery of the right care at the right place.

Furthermore, such a health deductible might also interest other provinces faced with major challenges in respect of funding health-care services.

5.3 Health accounts: for better information and greater transparency

In the interests of better information and greater transparency concerning the results of the funding provided in order to offer quality health services, the government is announcing the introduction of health accounts.

Health accounts will enable us to make choices regarding ways to maintain an adequate level of funding. They will make it possible for both the population and political and government decision-makers to assess the impact of resource allocation on the system's performance and results.

❑ Specific objectives

By introducing health accounts, the government aims to:

— improve transparency concerning the amounts allocated to the health and social services sector;

— increase public awareness of the trends in health-care spending and the pressure such spending exerts on the government's other missions;

— constitute a baseline for public discussion of the issues and the choices to be made in order to ensure the sustainability of health-care funding.

❑ An accountability mechanism for better informed decision-making

Health accounts will take the form of a document presenting the Québec government's health and social services spending, the revenues devoted to such spending and a set of indicators related to the network's performance.

— Being made public on an annual basis, they will contain information making it possible to understand the impact of the level of resources allocated to the health-care system and make the necessary adjustments.

— As regards financial information, establishing the connection between health-care spending and the resources devoted thereto will make it possible to identify the trends or issues related to the level and growth of the costs and various contributions that ensure the viability of the system.

Preventing this type of information is a move toward accountability on the government's part, which will make it possible to illustrate the dynamics surrounding funding and performance in the Québec public health-care system and undertake an enlightened discussion about the means to be employed to ensure balance in the health accounts.

The health accounts will be made public by the Minister of Health and Social Services in the fall, and they will present the most recent information possible.

6. STRENGTHENING OUR SOCIAL SAFETY NET

The government is taking the means necessary to strengthen our social safety net, despite the effort that will be required to put the public finances in order.

— A solidarity tax credit is being introduced to protect the standard of living of the most disadvantaged households.

— In accordance with the provisions of the *Act to combat poverty and social exclusion*, the government is announcing the upcoming implementation of the second plan to combat poverty.

— Enhanced measures are being announced for older persons.

6.1 The solidarity tax credit

Limiting the impact of tax increases on the least affluent households is important to the government.

In the 2010-2011 Budget, the government is therefore announcing the introduction of the solidarity tax credit. This new refundable tax credit will considerably mitigate the impact of the tax increases on the financial situation of less affluent households.

6.1.1 The new tax credit: one program instead of three

With the solidarity tax credit, the government is replacing three measures by a single program that is simpler and more efficient and generous.

The new tax credit will replace the following three tax credits:

— the refundable QST credit;

— the property tax refund;

— the refundable tax credit for individuals living in northern villages.

Currently, these three tax credits provide tax assistance of $840 million to low- and middle-income households. In comparison, the solidarity tax credit will grant support of $1 350 million to households—$510 million more than the three existing tax credits.

TABLE 32

Enhanced tax assistance with the solidarity tax credit
(millions of dollars)

	Impact over a full year
Measures incorporated into the new tax credit	
- Property tax refund	– 340
- Refundable QST credit	– 497
- Refundable tax credit for individuals living in northern villages	– 3
Subtotal	**– 840**
Solidarity tax credit	**+ 1 350**
ADDITIONAL COMPENSATION FOR TAX INCREASES	**+ 510**

❑ Simplification of the tax system for the taxpayer

The replacement of the three tax credits by a single one greatly simplifies things for taxpayers.

— The three tax credits have different eligibility criteria. Moreover, the property tax refund is the only tax credit that requires the participation of a third party, the owner, who must inform each lessee of the amount of property tax attributable to the rent.

— For two out of three tax credits, taxpayers must fill out a schedule in their income tax return.

— There are differences in how the three tax credits are paid:

  – the refundable QST credit is paid in advance, in monthly instalments, to last resort financial assistance recipients, and in two instalments, in August and December, to other households;

  – the property tax refund is paid once, when the income tax return is processed the following spring;

  – the tax credit for individuals living in northern villages is paid in two instalments, in August and December.

Under the new system, all households will have to do to receive the tax credit is fill out a short form in the income tax return.

Once this step has been completed, the amount of the tax credit will be automatically calculated by Revenu Québec, which will then pay the amount directly into the recipient's bank account every month for the rest of the year.

❑ Amounts of the new tax credit

Rolling the three tax credits into the new tax credit is possible because the refundable QST credit and the property tax refund have similar objectives, namely, to mitigate the impact of sales tax and property tax on low-income households.

In addition, the tax credits are intended for the same taxpayer profile.

The amounts of the new tax credit were determined as follows:

— The amounts were established using the 2010 amounts of the three tax credits.

— In addition, the amounts were raised in 2011 and 2012 in keeping with the tax increases announced in the budget.

— Lastly, the amounts will be indexed as of 2013, according to the indexing rate of the personal income tax system.

The new solidarity tax credit will include three components:

— a component to offset the QST;

— a component for households that must pay housing costs;

— a component for individuals living in northern villages.

TABLE 33

Parameters of the solidarity tax credit for 2011 and 2012 and of the existing tax credits in 2010

(dollars)

	Current payment in 2010	Solidarity tax credit (amounts per year calculated by Revenu Québec)	
		2011	2012
1. QST amounts			
• Basic amount[1]	178	220	265
• Amount for spouse[1]	178	220	265
• Additional amount for a person living alone[1]	121	125	128
2. Housing amounts			
• Amount for a couple[1]	Av. 320[4]	435[5]	625
• Amount for a person living alone[1]	Av. 285[4]	375[6]	515
• Amount for each dependent child[1]	—	25	110
3. Amounts for individuals living in northern villages			
• Amount for an adult[1]	756	775	790
• Amount for each dependent child[1]	324	332	339
Reduction of the assistance[2]			
Threshold at which the amount is reduced[3]	30 490	31 100	31 720
Rate of reduction for one component	—	3%	3%
Rate of reduction for two or more components	—	6%	6%

1 Amounts indexed as of 2013.
2 In 2010, the refundable QST credit is reduced to 3%, the property tax refund is reduced to 3% and the tax credit for individuals living in northern villages is reduced to 15% of family income in excess of the reduction threshold.
3 Amounts indexed as of 2011.
4 Average amounts for 2009 paid in 2010.
5 Including the average amount of the property tax refund: $335.
6 Including the average amount of the property tax refund: $330.

❑ Maximum tax assistance

For a couple with two children, the maximum amount will be $1 194 in 2011 and $1 375 in 2012. In 2010, the maximum is $958.

TABLE 34

Assistance under the tax credits in 2010, 2011 and 2012 – Couple with two children
(dollars)

Pre-budget system		Post-budget system Solidarity tax credit		
	2010		2011	2012
QST credit		QST amounts		
– Basic amount	178	– Basic amount	220	265
– Amount for spouse	178	– Amount for spouse	220	265
Property tax refund	Av. 320 (Max. 602)	Property tax refund	Av. 335 (Max. 604)	— —
		Housing amounts		
		– Amount for a couple	100	625
		– Amount for two children	50	220
AVERAGE AMOUNT	**676**	**AVERAGE AMOUNT**	**925**	**—**
MAXIMUM AMOUNT	**958**	**MAXIMUM AMOUNT**	**1 194**	**1 375**

6.1.2 Additional cash resources for low-income households

Households will be able to count on additional cash resources:

— The solidarity tax credit will be paid regularly, once a month.

— The amounts paid will remain stable throughout the year, as long as the family situation does not change.

— The amounts will be reviewed on the same date each year, namely, in July, so that Revenu Québec can incorporate the information provided by the taxpayer in the income tax return for the previous year (e.g. family income).

The cash benefits are illustrated in the two sample cases below.

❑ Couple with two children

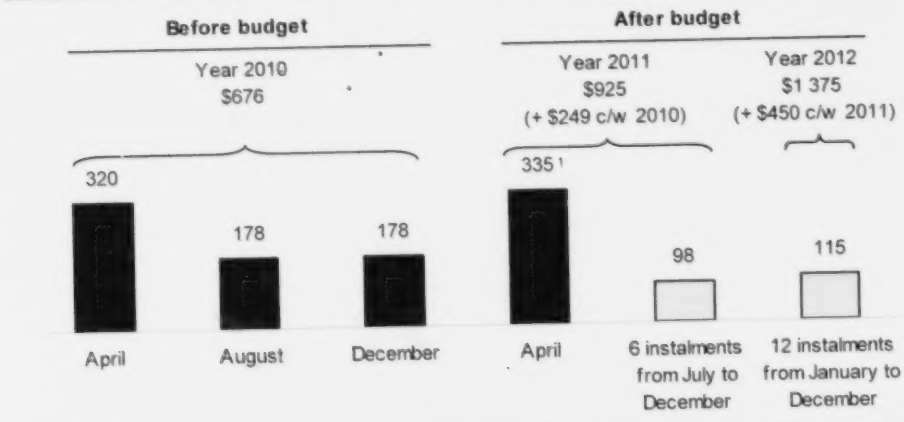
Currently, a couple with two children and two incomes totalling $30 000 receives a property tax refund of $320 in April, and the refundable QST credit in two equal instalments of $178, in August and December. The amount for the whole year is $676.

The same couple will receive a final payment of the property tax refund in April 2011, in the amount of $335. In addition, under the new system, the couple will receive a first monthly instalment of the solidarity tax credit in July 2011, in the amount of $98. Over a full year, the gain compared with the current system is $249.

CHART 6

Increase in cash resources for a couple with two children, two work incomes totalling $30 000 and housing costs

(dollars)



1 For 2011, a rise in the average amount is presumed due to the increase in property taxes and the planned indexing of the personal income tax system.

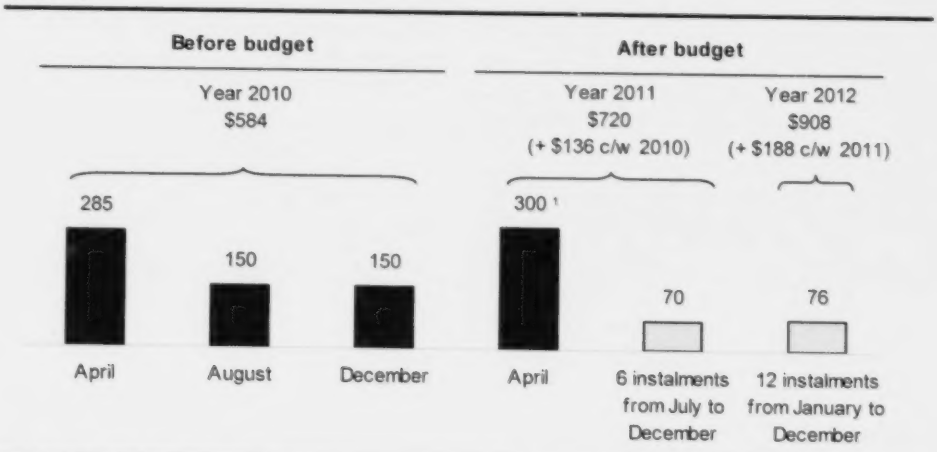
❑ Person living alone

A person living alone receives a property tax refund of $285 in April 2010 and the refundable QST credit in two equal instalments of $150, in August and December. The amount for the whole year is $584.

The same person will receive a final payment of the property tax refund in April 2011, in the amount of $300. In addition, under the new system, the person will receive a first monthly instalment of the solidarity tax credit in July 2011, in the amount of $70. Over a full year, the gain compared with the current system is $136.

CHART 7

Increase in cash resources for a person living alone with a work income of $30 000 and housing costs
(dollars)



1 For 2011, a rise in the average amount is presumed due to the increase in property taxes and the planned indexing of the personal income tax system.

❑ A couple with two children and two work incomes

In 2012, a couple with two children and two work incomes totalling $30 000 will receive $1 375 under the new system, compared with $716 currently. The annual gain for the household will be $659.

— If the couple instead earned income of $50 000, the tax credit would be $407, whereas such a household is currently not eligible for the refundable QST credit or the property tax refund.

— The new tax credit is less for a couple with an income of $50 000 than for a couple earning $30 000, because the amount of the tax credit is reduced as of a family income of $31 720.

TABLE 35

Impact of the solidarity tax credit for a couple with two children and two work incomes – 2012

(dollars)

Work income	Disposable income	Tax credits replaced by the new tax credit			Solidarity tax credit	Compensation for tax increases
		Property tax	QST	Total		
0	27 863	– 350	– 376	– 726	1 375	649
10 000	32 617	– 350	– 376	– 726	1 375	649
20 000	35 966	– 350	– 366	– 716	1 375	659
30 000	40 609	– 350	– 366	– 716	1 375	659
40 000	42 226	– 146	– 162	– 308	1 007	699
50 000	44 895	—	—	—	407	407
60 000	50 460	—	—	—	—	—

Application of the new solidarity tax credit

Implementation

The solidarity tax credit will take effect in 2011, and the first payment will be made in July 2011. Revenu Québec will be responsible for administering the tax credit, and payments will be made monthly.

Eligibility

The eligibility requirements for the new tax credit will be essentially the same as those currently in effect for the refundable QST credit and the property tax refund.

In general, the tax credit is intended for any individual who, at the end of a year, resides in Québec, provided he or she is, at that time, 18 or over, an emancipated minor within the meaning of the *Civil Code of Québec*, the spouse of an individual, or the father or mother of a child with whom he or she resides.

To qualify for the housing component, an individual must live in an eligible dwelling of which he or she is the owner-occupant, lessee or sublessee.

The individuals living in a northern village component is for individuals who live in one of 14 northern villages during the year.

Eligible income

In 2011, the amount of the tax credit will be reduced by 3% of family income in excess of $31 100, where the household is eligible for only one of the components. The amount will be reduced by 6% of net family income, where the household is eligible for more than one of the components.

Indexation

The tax credit will be indexed annually, as of January 2013, at the same rate as the other parameters of the personal income tax system.

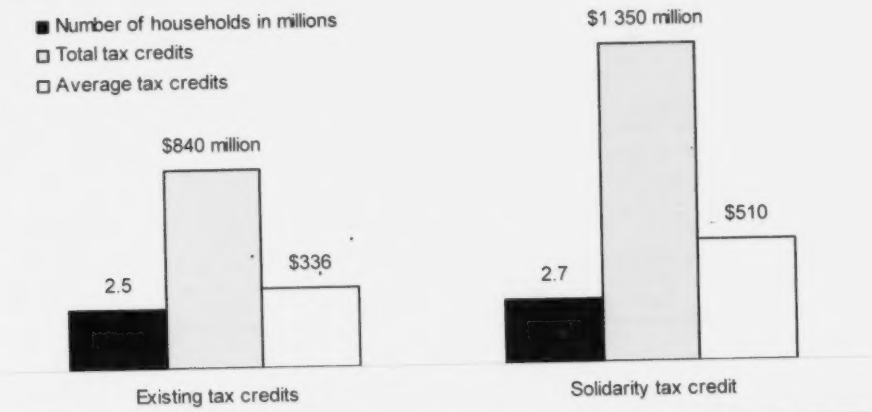
6.1.3 A $510-million enhancement to compensate for the tax increases

The enhancement of the tax assistance stemming from the implementation of the solidarity tax credit will benefit nearly 2.7 million eligible households.

On average, these households will receive additional tax assistance of $174.

CHART 8

Number of households and cost of the tax credits – current situation and the solidarity tax credit – impact over a full year



- **Substantial compensation for the tax increases for many households**

The enhancement will, to a large extent, compensate low-income households for tax increases.

A couple with two children:

— who receives social assistance and has no work income will have a net gain of $293, that is, $147 per adult;

— who earns an income of $20 000 will have a net gain of $201, that is, $101 per adult.

TABLE 36

Impact of the tax increases, the health contribution and the solidarity tax credit for a couple with two children and two work incomes – 2013

(dollars)

		Tax increases and health contribution					Net impact	
Work income	Disposable income in 2013	QST increase to 9.5%[1]	Increase in the tax on gasoline (4¢/litre)[2]	Health contribution	Subtotal	Additional compensation for tax increases[3]	Per household	Per adult
0	28 369	298	65	—	363	656	293	147
10 000	33 123	348	75	—	422	656	234	117
20 000	36 374	381	82	—	463	664	201	101
30 000	41 153	429	90	—	519	664	145	73
40 000	42 930	453	97	400	950	705	– 245	– 123
50 000	45 303	481	102	400	984	482	– 501	– 251
60 000	50 819	534	110	400	1 044	—	– 1 044	– 522
70 000	56 551	588	116	400	1 104	—	– 1 104	– 552
75 000	59 417	615	119	400	1 134	—	– 1 134	– 567
100 000	72 767	735	132	400	1 267	—	– 1 267	– 633
125 000	87 122	859	142	400	1 402	—	– 1 402	– 701

1 Based on the consumption profile drawn from the Social Policy Simulation Model (Statistics Canada).
2 Based on the consumption profile drawn from the 2006 Survey of Household Spending (Statistics Canada).
3 Solidarity tax credit minus the QST credit and the property tax refund.

A person living alone:

— who is a social assistance recipient will have a net gain of $204;

— who earns $20 000 in income will have a drop in disposable income of $113.

TABLE 37

Impact of the tax increases, the health contribution and the solidarity tax credit for a person living alone – 2013
(dollars)

		Tax increases and health contribution					
Work income	Disposable income in 2013	QST increase to 9.5%[1]	Increase in the tax on gasoline (4¢/litre)[2]	Health contribution	Subtotal	Additional compensation for tax increases[3]	Net impact
0	8 154	58	11	—	69	273	204
10 000	12 675	103	20	—	124	273	149
20 000	18 218	164	30	200	393	280	– 113
30 000	24 483	230	37	200	467	280	– 187
40 000	30 169	286	42	200	529	319	– 209
50 000	35 756	340	46	200	586	—	– 586
60 000	41 875	397	50	200	647	—	– 647
70 000	48 027	452	53	200	705	—	– 705
75 000	51 108	479	54	200	734	—	– 734
100 000	65 398	600	60	200	860	—	– 860
125 000	78 971	708	64	200	972	—	– 972

1 Based on the consumption profile drawn from the Social Policy Simulation Model (Statistics Canada).
2 Based on the consumption profile drawn from the 2006 Survey of Household Spending (Statistics Canada).
3 Solidarity tax credit minus the QST credit and the property tax refund.

❑ Compensation in step with the tax increases

The tax increases will be gradual and spread over several years.

The amounts of the solidarity tax credit will increase in step with the tax increases in order to protect the purchasing power of low-income households.

TABLE 38

Net impact on cash resources[1] of the tax increases, the health contribution and the solidarity tax credit – Couple with two children and two work incomes – 2010 to 2013
(dollars)

Work income	Disposable income in 2013	2010	2011	2012	2013
0	28 369	– 12	234	309	293
10 000	33 123	– 15	204	252	234
20 000	36 374	– 16	8	223	201
30 000	41 153	– 18	– 19	170	145
40 000	42 930	– 19	– 267	– 18	– 245
50 000	45 303	– 20	– 334	– 345	– 501
60 000	50 819	– 22	– 365	– 811	– 1 044
70 000	56 551	– 23	– 395	– 870	– 1 104
75 000	59 417	– 24	– 410	– 899	– 1 134
100 000	72 767	– 26	– 475	– 1 027	– 1 267
125 000	87 122	– 29	– 543	– 1 161	– 1 402

1 For 2010, the impact corresponds to the 1-cent-per-litre increase in the tax on gasoline, to take effect on April 1, 2010. For 2011, the impact also includes the additional 1-cent-per-litre increase in the tax on gasoline slated for April 1, 2011 (2 cents total per litre), the payment in spring 2011 of the $25 health contribution for the 2010 taxation year, and the increase in the QST rate from 7.5% to 8.5% on January 1, 2011.

TABLE 39

Net impact on cash resources[1] of the tax increases, the health contribution and the solidarity tax credit – Person living alone – 2010 to 2013

(dollars)

Work income	Disposable income in 2013	2010	2011	2012	2013
0	8 154	– 2	234	213	204
10 000	12 675	– 4	206	161	149
20 000	18 218	– 6	– 3	4	– 113
30 000	24 483	– 7	–37	–71	– 187
40 000	30 169	– 8	– 233	–92	– 209
50 000	35 756	– 9	– 215	– 472	– 586
60 000	41 875	– 10	– 245	– 532	– 647
70 000	48 027	– 11	– 274	– 590	– 705
75 000	51 108	– 11	– 289	– 618	– 734
100 000	65 398	– 12	– 351	– 741	– 860
125 000	78 971	– 13	– 407	– 853	– 972

1 For 2010, the impact corresponds to the 1-cent-per-litre increase in the tax on gasoline, to take effect on April 1, 2010. For 2011, the impact also includes the additional 1-cent-per-litre increase in the tax on gasoline slated for April 1, 2011 (2 cents total per litre), the payment in spring 2011 of the $25 health contribution for the 2010 taxation year, and the increase in the QST rate from 7.5% to 8.5% on January 1, 2011.

6.1.4 Gains for all households since 2003

The rise in disposable income since 2003 has been considerable, even when the tax increases and health contribution announced in the 2010-2011 Budget are taken into account.

TABLE 40

Gains for a couple with two children and two work incomes, taking into account the impact of the measures of the Québec government and federal government
(dollars)

Work income	Disposable income before tax increases		Rise in disposable income from 2003 to 2010			Tax credit minus tax increases and health contribution[1]	Net gain for the household	
	2003	2010	Impact of Québec measures	Total: Québec, federal and contributions	Total % increase over 2003		Québec	Québec and federal
0	19 984	26 699	3 100	6 715	33.6%	293	3 393	7 008
10 000	23 071	31 453	4 077	8 382	36.3%	234	4 310	8 616
20 000	25 106	34 972	5 070	9 866	39.3%	201	5 272	10 067
30 000	28 954	39 297	4 381	10 342	35.7%	145	4 526	10 487
40 000	33 364	40 805	2 420	7 442	22.3%	– 245	2 174	7 196
50 000	38 797	44 101	1 663	5 304	13.7%	– 501	1 161	4 802
60 000	44 038	49 764	1 955	5 726	13.0%	– 1 044	911	4 682
70 000	49 131	55 497	2 255	6 365	13.0%	– 1 104	1 151	5 261
75 000	51 507	58 351	2 393	6 844	13.3%	– 1 134	1 259	5 710
100 000	66 199	71 263	1 577	5 064	7.6%	– 1 267	310	3 797
125 000	80 942	86 079	2 241	5 137	6.3%	– 1 402	840	3 735

1 Corresponds to the total impact of the solidarity tax credit minus the tax increases and the health contribution for 2013.

TABLE 41

Gains for a person living alone, taking into account the impact of the measures of the Québec government and federal government

(dollars)

Work income	Disposable income before tax increases		Rise in disposable income from 2003 to 2010			Tax credit minus tax increases and health contribution[1]	Net gain	
	2003	2010	Impact of Québec measures	Total: Québec, federal and contributions	Total % increase over 2003		Québec	Québec and federal
0	6 975	7 655	646	680	9.7%	204	850	884
10 000	9 998	12 471	650	2 473	24.7%	149	799	2 622
20 000	16 496	17 886	607	1 390	8.4%	– 113	494	1 276
30 000	22 473	24 154	984	1 681	7.5%	– 187	797	1 494
40 000	27 477	29 559	1 054	2 083	7.6%	– 209	845	1 873
50 000	33 640	35 287	962	1 647	4.9%	– 586	376	1 060
60 000	39 571	41 405	1 194	1 835	4.6%	– 647	547	1 188
70 000	45 145	47 557	1 594	2 412	5.3%	– 705	889	1 707
75 000	47 860	50 639	1 794	2 779	5.8%	– 734	1 061	2 045
100 000	61 432	64 570	1 921	3 137	5.1%	– 860	1 061	2 278
125 000	74 495	78 142	1 921	3 647	4.9%	– 972	949	2 675

1 Corresponds to the total impact of the solidarity tax credit minus the tax increases and the health contribution for 2013.

6.2 Plan to combat poverty

In accordance with the *Act to combat poverty and social exclusion*, the government is announcing the upcoming implementation of the second plan to combat poverty. The plan covers a five-year period, from 2010-2011 to 2014-2015.

The second plan continues the course charted by the 2004-2010 plan to combat poverty.

— Overall, the 2004-2010 action plan devoted $4.5 billion over six years to combating poverty and social exclusion.

— To date, the results have been remarkable, particularly as regards financial support for families, the work incentive, the construction of social housing and poverty reduction.

The guidelines for the action to be taken under the next anti-poverty plan are based in large part on the consultations conducted since June 15, 2009 by the Minister of Employment and Social Solidarity.

The 2010-2011 Budget presents the main measures that will be an integral part of the next action plan. The details will be announced shortly by the Minister of Employment and Social Solidarity.

6.2.1 Priorities of the 2010-2015 plan to combat poverty and social exclusion

❑ Context

The context in which the new action plan was drawn up was marked by an economic recession and the return to budget deficits after a long period of balanced budgets.

The 2009-2010 Budget provided for the implementation of an economic action plan injecting $15 billion into the economy in 2009 and 2010.

In the short term, the priority was to take economic stimulus measures to shore up jobs threatened by the recession and help businesses experiencing financial difficulties because of the economic situation.

— The Employment Pact Plus was launched primarily to support workers who had lost their job and ensure that they did not find themselves living in poverty again. In this budget, the Plan Emploi Métropole will prioritize job creation in the Montréal region through targeted initiatives in addition to those applied across Québec.

— By focusing on employment, the government plays an effective role in combating poverty.

Despite the economic and budgetary situation, the government is maintaining its commitment to reducing poverty. In the 2010-2011 Budget, the government is unveiling the policy directions of an action plan that is in keeping with the situation, one that prioritizes the most urgent needs and focuses on more efficient use of the resources devoted to combating poverty.

❑ Main priorities

The next action plan to combat poverty will focus on the following priorities:

— protection of the purchasing power of low-income households, through the implementation of the new solidarity tax credit;

— support for mobilizing projects undertaken by local and regional players, through a five-year budget of $115 million for the Fonds québécois d'initiatives sociales;

— continued investments in social housing construction, in particular:

  — 3 000 new units under the AccèsLogis program, for a revised objective of 30 000 dwellings delivered since 2003;

  — 340 new units in Northern Québec;

— enhanced support for older persons:

  — by improving the tax credit for home support for elderly persons;

  — by increasing the budgets for the program Soutien aux initiatives visant le respect des aînés (SIRA), in particular for informal caregivers;

— work incentives for low-income workers, in particular:

  — a rise in the minimum wage from $9.00 to $9.50 an hour as of May 1, 2010;

  — an improvement to the federal Working Income Tax Benefit (WITB) paid in 2010, which, at the request of the Québec government, will target workers with no children;

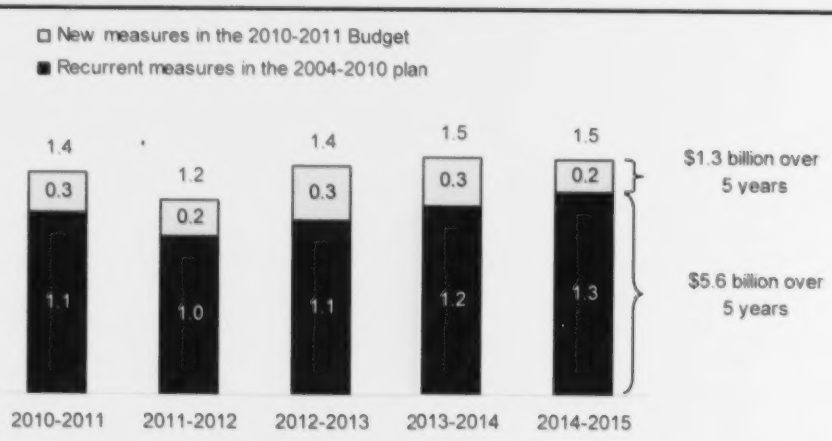
— renewal of initiatives implemented in the 2004-2010 action plan.

❑ A major effort in the current budgetary context

The government is thus committing additional amounts totalling more than $1.3 billion over five years to combat poverty—a substantial effort in the context of Québec's public finances.

CHART 9

Investments in the 2010-2015 plan to combat poverty and social exclusion
(billions of dollars)



On the whole, the new measures will be in addition to the recurrent measures in the 2004-2010 action plan.

The renewal of these measures represents annual support for households of approximately $1 billion, that is, $5.6 billion over five years. In particular, two measures introduced in the 2004-2005 Budget—the child assistance payment and the work premium—will continue to be available to low-income families and workers.

TABLE 42

Investments to combat poverty over five years — 2010-2011 to 2014-2015

(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	Total over 5 years
NEW MEASURES						
Solidarity tax credit: compensation for low-income households for tax increases[1]	—	75	155	155	155	540
Fonds québécois d'initiatives sociales	17	23	25	25	25	115
Investments in housing						
- Construction of 3 000 social housing units[2]	166	100	107	103	—	476
- Construction of 340 dwellings in Nunavik[3]	18	19	21	23	24	105
- Additional funding for the implementation of AccèsLogis projects	7	7	—	—	—	14
- Other housing assistance measures[4]	46	—	—	—	—	46
New measures for seniors						
- Enhancement of the refundable tax credit for home support for elderly persons	5	5	5	5	5	25
- Enhancement of the program Soutien aux initiatives visant le respect des aînés	4	4	4	2	2	16
Work incentives						
- Minimum wage: increase from $9.00 to $9.50 an hour as of May 1, 2010	—	—	—	—	—	—
- Federal Working Income Tax Benefit: enhancement for households without children	—	—	—	—	—	—
Subtotal	**263**	**233**	**317**	**313**	**211**	**1 337**
RECURRENT MEASURES IN THE 2004-2010 PLAN						
- Child assistance: gains for low-income families	239	243	248	253	258	1 241
- Work premium: gains for low-income households	241	245	250	255	259	1 250
- Full indexation of social assistance benefits	245	320	408	489	565	2 027
- Other measures[5]	406	174	177	179	182	1 118
Subtotal	**1 131**	**982**	**1 083**	**1 176**	**1 264**	**5 636**
TOTAL INVESTMENTS	**1 394**	**1 215**	**1 400**	**1 489**	**1 475**	**6 973**

1 Includes only the portion concerning low-income households, that is, those whose disposable income is below the income thresholds of the Market Basket Measure (MBM).

2 Includes the construction of dwellings announced in the 2008-2009 and 2009-2010 budgets, to be delivered in 2010-2011 and 2011-2012.

3 Includes investments by the Québec government ($99.2 million for operating subsidies granted respecting these dwellings for 15 years) and the Canadian government ($91.1 million).

4 The RénoVillage program, home adaptations (persons with disabilities) program, rent supplements for households, Réparation d'urgence program, Home Adaptations for Seniors' Independence Program, spending increase for the maintenance and renovation of social housing units.

5 Social Assistance and Support Program, refundable tax credit for home support for elderly persons, measures to encourage low-income households to save, Employment Pact and Employment Pact Plus.

6.2.2 Protecting the purchasing power of low-income households

As part of the action plan, it is important, above all, to limit the impact of the tax increases on the financial situation of low-income households. The increases must not curtail the ability of households to obtain essential goods and services.

As previously seen, the implementation of the new solidarity tax credit as of 2011 will protect the spending power of low-income households.

— The three existing tax credits grant tax assistance of $840 million to low- and middle-income households.

— The solidarity tax credit will grant $1.4 billion to households, that is, $510 million more than the three existing tax credits.

❑ An enhancement of $155 million for low-income households (below the MBM thresholds)

Households with an income below the Market Basket Measure (MBM) will receive $415 million under the new tax credit. Compared with the current system, these households will therefore receive additional support of $155 million a year.

Market Basket Measure

As defined by the Market Basket Measure (MBM), a person in low income is someone whose disposable family income falls below the cost of the goods and services in the Market Basket in their community or community size.

The market basket on which the MBM is based includes specified quantities and qualities of goods and services related to food, clothing and footwear, shelter, and transportation. It also contains other goods and services such as personal and household needs, furniture, telephone service and modest levels of reading, recreation and entertainment (e.g. newspaper and magazine subscriptions, fees to participate in recreational activities or sports, video rentals, tickets to local sports events).

MBM disposable family income is the sum remaining after deducting from total family income the income tax payable; the personal portion of payroll taxes; other mandatory payroll deductions such as contributions to employer-sponsored pension plans, supplementary health plans and union dues; child support and alimony payments made to another household; out-of-pocket spending on child care; and non-insured but medically-prescribed health-related expenses such as dental and vision care, prescription drugs and aids for persons with disabilities.

Source: Human Resources and Skills Development Canada

TABLE 43

Impact of the solidarity tax credit based on household income – Full year
(millions of dollars)

	Household income		
	Income below the MBM[1]	Income above the MBM[1]	All eligible households
Measures incorporated into the new tax credit			
Property tax refund	– 70	– 270	– 340
QST credit	– 188	– 309	– 497
Tax credit for individuals living in northern villages	– 2	– 1	– 3
Subtotal	**– 260**	**– 580**	**– 840**
Solidarity tax credit	**+ 415**	**+ 935**	**+ 1 350**
ADDITIONAL COMPENSATION FOR THE TAX INCREASES	**+ 155**	**+ 355**	**+ 510**

1 Income threshold of the Market Basket Measure in Montréal.

❑ Full compensation for the tax increases for most low-income households (below the MBM thresholds)

With the new solidarity tax credit, low-income households will be compensated, in whole or in part, for the tax increases. A couple with two children:

— who receives social assistance and has no work income will have a net gain of $293;

— whose income is below the MBM thresholds will also be compensated;

— who earns the minimum wage will also be fully compensated.

TABLE 44

Net impact of the tax increases, the health contribution and the solidarity tax credit – Low-income households

(dollars)

		Change in disposable income				
	Disposable income in 2010 (before measures)	Increase in the minimum wage from $9.00 to $9.50 an hour[1]	Increase in the WITB for households without children	Tax increases and health contribution	Compensation for the tax increases and health contribution	Gain for the household
Couple with two children and two incomes						
– Last resort financial assistance – able to work, no income	26 699	—	—	– 363	656	293
– Workers – disposable income equal to the MBM[1]	27 815	150	—	– 377	656	429
– Minimum-wage workers[2]	40 282	257	—	– 545	705	417
Single-parent family with one child 3 years of age						
– Last resort financial assistance – able to work, no income	18 057	—	—	– 226	348	122
– Workers – disposable income equal to the MBM[2]	19 471	144	—	– 246	348	246
– Minimum-wage workers[3]	25 956	672	—	– 330	355	697
Couple with no children and two incomes						
– Last resort financial assistance – able to work, no income	11 729	—	—	– 155	426	271
– Workers – disposable income equal to the MBM[2]	19 471	631	1 471	– 263	434	2 273
– Minimum-wage workers[3]	31 275	929	—	– 422	475	981
Person living alone						
– Last resort financial assistance – able to work, no income	7 655	—	—	– 69	273	204
– Workers – disposable income equal to the MBM[2]	13 908	392	647	– 148	273	1 164
– Minimum-wage workers[3]	16 695	504	92	– 186	280	689

1 Corresponds to the net impact on disposable income, that is, the salary increase minus income tax, employee contributions and the impact on social programs and refundable tax credits.
2 Income threshold of the Market Basket Measure in Montréal.
3 Assuming 2 000 hours of work at the minimum wage.

6.2.3 Support for mobilizing projects and improvement of intervention coordination in all regions

Improving the coordination and effectiveness of intervention in all regions, be it locally, regionally or across Québec, is important to the government.

In addition, support for mobilizing projects undertaken by local players in all regions of Québec must be continued. To carry through on that vision, the 2010-2011 Budget provides for new investments in the Fonds québécois d'initiatives sociales.

❑ Fonds québécois d'initiatives sociales

The Fonds québécois d'initiatives sociales (FQIS) finances initiatives to combat poverty and social exclusion. The FQIS is one of the main tools fostering the emergence of strategies for combating poverty and social exclusion by local and regional players on territories considered to be priority intervention zones. Thus, territorial action supported by the FQIS gives rise to solutions tailored to regional realities.

In the 2004-2010 action plan, the FQIS financed major projects:

— the Club des petits déjeuners, which provides full, nutritional breakfasts in primary and secondary schools in disadvantaged areas;

— the fight against poverty and social exclusion component of the Ville de Montréal city contract, aimed at the implementation of tailored anti-poverty strategies.

To help local players combat poverty, the 2010-2011 Budget provides for additional investments of $115 million over five years.

6.2.4 Continued investment in social housing construction

The 2010-2011 Budget provides for investments of $323 million in social housing for:

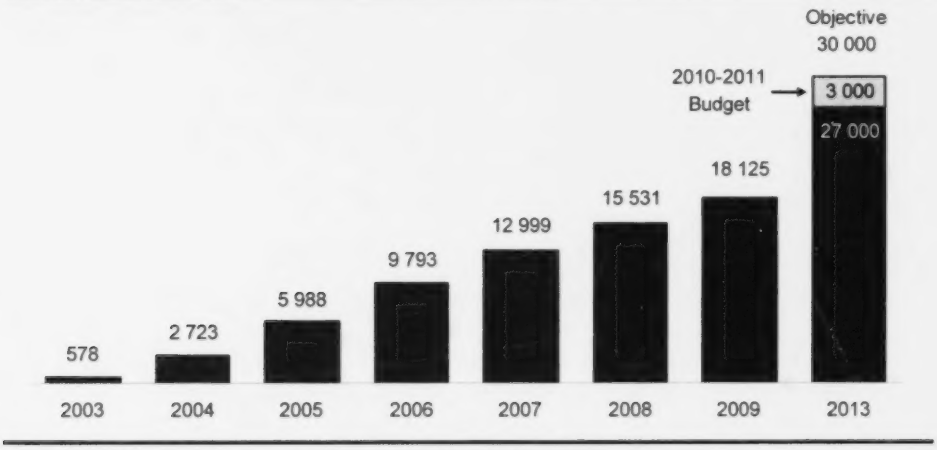
— the construction of 3 000 new dwellings under the AccèsLogis Québec program;

— the construction of 340 dwellings in Nunavik (in partnership with the federal government);

— accelerated implementation of AccèsLogis Québec projects outside large cities and, more specifically, in small municipalities and remote regions.

CHART 10

Cumulative number of social housing units delivered as at December 31 of each year
(dwelling units)



Sources: Ministère des Finances du Québec and Société d'habitation du Québec.

6.3 New measures for seniors

In the 2010-2011 Budget, the government is announcing two measures for seniors:

— enhancement of the refundable tax credit for home support for elderly persons;

— enhancement of the program Soutien aux initiatives visant le respect des aînés et des proches aidants.

6.3.1 Enhancement of the refundable tax credit for home support of elderly persons

The refundable tax credit for home support of elderly persons is available to seniors 70 or over who live at home or in a private residence for the elderly.

— The tax credit reimburses 30% of eligible expenses such as expenses incurred for personal care, housekeeping, the services of a nurse or meal preparation.

— In 2009, the tax credit helped nearly 150 000 households by granting them more than $210 million in assistance, or an average of almost $1 400.

Currently, the rules for the duration and frequency of use of certain servies restrict eligibility for the tax credit. The existing rules require a minimum of seven hours a day for nursing services and at least once a week for housekeeping services.

— These requirements are not a problem for large residences.

— However, they are too strict for small residences with few lessees.

In this context, the 2010–2011 Budget provides for the relaxation of the minimum eligibility requirements for these services:

— a minimum of 3 hours a day will henceforward be required for nursing services (compared with the current 7 hours a day);

— a minimum of once every 2 weeks will be requested for housekeeping services (compared with once a week currently).

This enhancement will benefit 12 000 people, giving them an additional $5 million a year.

TABLE 45

Reduction in the minimum frequency requirements for nursing and housekeeping services in private residences for the elderly

	Minimum frequency requirements	
	Before budget	**After budget**
Nursing services	7 hours a day	3 hours a day
Housekeeping services	Once a week	Once every 2 weeks

6.3.2 Enhancement of the program Soutien aux initiatives visant le respect des aînés

The program Soutien aux initiatives visant le respect des aînés (SIRA) is a government funding program for organizations that offer activities and services for seniors. Projects submitted under the program must focus on promoting respect for seniors and active aging in Québec society.

Given the aging population, the number of requests for assistance from organizations will only rise over the years. To better meet these requests, the 2010-2011 Budget provides for an investment of $2 million a year in the SIRA program and an investment of another $2 million for the addition of a component for informal caregivers.

The addition of an informal caregiver component to the SIRA program will enable organizations that work with informal caregivers who look after seniors to better organize services and develop a service offering including such services as a help line, and respite and assistance services. Through the new component, the government will support these organizations, which are currently faced with growing needs and a lack of resources, so that they are better equipped to provide the necessary assistance to informal caregivers who look after seniors losing their autonomy. This amount is in addition to the funding from the company managing the support fund for informal caregivers, and makes it possible to support organizations during the deployment phase of the company's activities.

6.4 Results of the social policies

The government has implemented the following social policies since 2003:

— a generous family policy, which has started to yield results;

— the action plan for seniors, which has improved their living environment;

— the plan to combat poverty, which has led to substantial gains for the least privileged members of society.

6.4.1 A generous family policy, which has started to yield results

The family policy applied in Québec is generous: in 2009, it provided $10 billion in financial support to families.

— Québec ranks along with the top OECD countries in the amount of financial assistance granted to families.

— These collective investments are substantial, and the results are commensurate with efforts, both in terms of demographics and participation of women in the labour market.

❑ Total of $10 billion for families

In 2009, Québec families received financial support totalling $10 billion: $6.5 billion administered by the Québec government and $3.5 billion from the federal government.

TABLE 46

Financial support for families – Québec and federal assistance

(billions of dollars)

	2009
Québec government[1]	
– Financial support for parents	2.6
– Child-care assistance	2.7
– Québec parental insurance plan (QPIP)[2]	1.2
Subtotal – Québec	**6.5**
Federal government	
– Financial support for parents[3]	2.9
– Child-care assistance[4]	0.6
Subtotal – federal	**3.5**
TOTAL	**10.0**

Note: Since figures are rounded, they may not add up to the totals shown.

1 See following table for greater detail.

2 Total benefit payments in 2009 were estimated at $1.7 billion. Net benefits, after accounting for taxation, totalled $1.2 billion.

3 Mainly the Canada Child Tax Benefit and the non-refundable tax credit for children.

4 Mainly the Universal Child Care Benefit.

Source: Ministère des Finances du Québec.

The programs administered by Québec relate to the three components of the government's family policy, namely, financial support for parents, child care and parental leave.

— Financial support for parents is provided primarily through a tax measure, the child assistance payment, which alone provided financial assistance of nearly $2.1 billion in 2009.

— Support for child care is provided through programs for educational child-care services, which are responsible for reduced-contribution child-care services, as well as through tax measures for parents who use regular rate child-care services. Educational child-care services alone represented an investment of over $2 billion in 2009.

— Parental leave is administered by the Québec government using employer and employee contributions to the Québec parental insurance plan. Accounting for tax rules, the plan paid out net benefits totalling $1.2 billion in 2009 (gross benefits were estimated at $1.7 billion).

In 2009, Québec families received an estimated $3.5 billion in financial assistance from the federal government. Three quarters of this amount was in the form of financial support for parents, mainly through the Canada Child Tax Benefit.

❑ Increase of over 58% in six years

Between 2003 and 2009, the financial assistance granted to families by the Québec government rose by more than 58%.

TABLE 47

Change in financial assistance for families – Québec
(billions of dollars)

	2003	2009	Change 2003-2009
Financial support for parents			
– Child assistance payment[1]	N/A	2.1	2.1
– Work premium	N/A	0.2	0.2
– Other measures	1.6[2]	0.3[3]	– 1.4
Subtotal	**1.6**	**2.6**	**1.0**
Child-care assistance			
– Educational child-care services – early childhood	1.3	1.9	0.6
– Educational child-care services – school	0.2	0.2	—
– Refundable tax credit for child-care expenses	0.2	0.2	—
– Other measures[4]	0.3	0.4	0.1
Subtotal	**2.0**	**2.7**	**0.7**
Québec parental insurance plan[5]	**0.5**	**1.2**	**0.7**
TOTAL	**4.1**	**6.5**	**2.4**
Percentage change			**58.5**

Note: Since figures are rounded, they may not add up to the totals shown.

1 Including the supplement for handicapped children.

2 Mainly: the Québec family allowance, social assistance, APPORT, shelter allowance, student financial assistance, non-refundable tax credit for dependent children, for single-parent families and for adult children who are students, and the tax reduction for families.

3 Mainly: the shelter allowance, student financial assistance and the non-refundable tax credit for adult children who are students.

4 Mainly: age 5 kindergarten, kindergarten in disadvantaged communities and child-care assistance for social assistance recipients.

5 For comparison purposes, the federal Employment Insurance Program was considered for 2003.

Source: Ministère des Finances du Québec.

The sharp growth in family assistance drove the increase in disposable income of Québec families with children.

For example, in six years, the disposable income of a couple with two children and two work incomes has risen by:

— just over 13% for a family with two work incomes totalling $75 000;

— 29% for a family with two work incomes totalling $35 000;

— 44% for a family with two work incomes totalling $15 000.

TABLE 48

Change in disposable income[1] for a couple with two children[2] and two work incomes[3] from 2003 to 2009
(dollars)

Work income	2003	2009	Change	
			($)	(%)
0	19 984	26 562	6 578	32.9
15 000	22 514	32 407	9 893	43.9
25 000	27 008	36 899	9 891	36.6
35 000	31 013	39 971	8 958	28.9
50 000	38 797	43 995	5 198	13.4
65 000	46 641	52 541	5 900	12.6
75 000	51 507	58 254	6 746	13.1
100 000	66 199	71 249	5 050	7.6
125 000	80 942	86 100	5 158	6.4
150 000	94 726	101 508	6 781	7.2
175 000	108 299	115 680	7 381	6.8

1 The disposable income of this household is equal to the sum of the work income, transfer payments and refundable tax credits, less income taxes and mandatory contributions paid by the income-earner (Québec Pension Plan, Employment Insurance program, Québec parental insurance plan and public prescription drug insurance plan). Disposable income reflects the Québec and federal tax systems.
2 Children ages 2 and 3 with reduced-contribution child-care spaces.
3 Each spouse earns 50% of the work income.

❑ A rising birth rate

Since 2000, Québec demographics have been undergoing a sea change, with a regular, ongoing rise in the birth rate and an increase in immigration.

— The rise in the birth rate and increased immigration are major phenomena, the consequences of which are already being seen in future demographic trends in Québec.

— The link is obvious between the change in young households' behaviour with regard to the birth rate and the multiplication of measures for families, making Québec the most generous jurisdiction in North America in this respect.

■ A mini-baby boom, which has accelerated since 2005 and is holding its own in 2009

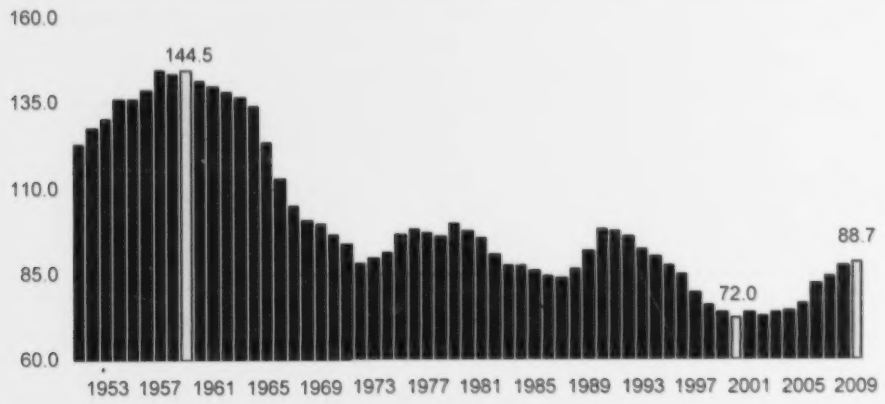
The number of births fell by 50% in Québec between 1959 and 2000. Since 2000, the birth rate has been on the rise, accelerating as of 2005 and holding its own in 2009, according to the data made public in early March 2010.

— In 2009, Québec recorded almost 90 000 births, the highest number in the last 15 years.

— In fact, not since the end of the 1950s—the end of the baby boom—had Québec experienced a period with such an increase in the number of births. Births rose 23.2% between 2000 and 2009, and 19.8% in the past five years alone.

CHART 11

Change in the number of births in Québec (1951-2009)
(thousands)



Source: Institut de la statistique du Québec.

Fertility—the average number of children per woman—has been on the rise again in recent years.

— In 1957, Québec women had on average just over four children.

— As of 1971, the average number of children per woman fell below two. Fertility was therefore below the threshold required to ensure generational replacement.

— During the 1970s and 1980s, fertility continued to decline, reaching its lowest level in 1987, with 1.36 children per woman. The rise in the early 1990s is purportedly due, in large part, to the baby bonus program introduced in 1988.

— After stabilizing at about 1.5, the average number of children per woman has been on the rise again since the early 2000s.

— The total fertility rate reached 1.74 children per woman in 2008, a level unheard of in three decades, in fact not since 1976.

CHART 12

Change in the number of children per woman in Québec[1] (1951-2008)

1 According to the total fertility rate.
Source: Institut de la statistique du Québec.

❑ Increase in the employment rate of women

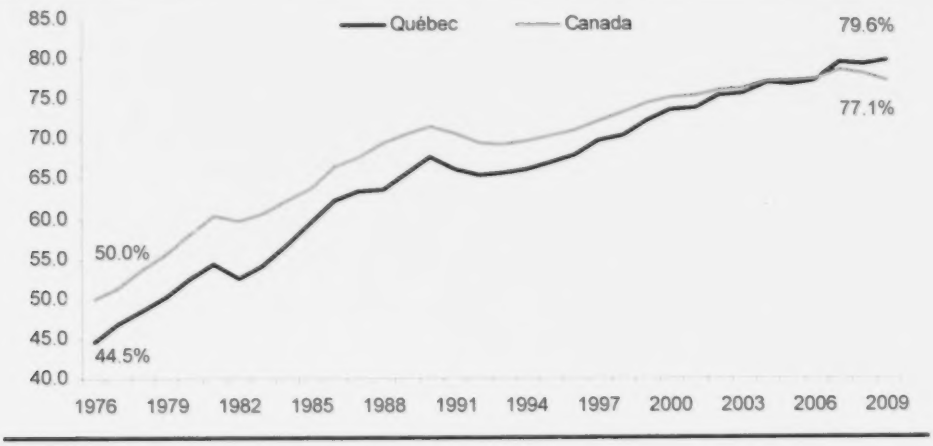
Québec's family policy has had a direct impact on the employment rate of women.

— In 1976, 45% of women aged 25 to 44 were working in Québec, compared with 50% in Canada as a whole.

— Thirty years later, the employment rate of women aged 25 to 44 has increased dramatically. Nearly 80% of women aged 25 to 44 are in the labour market, and Québec has reached the Canadian average.

CHART 13

Change in the employment rate of women aged 25 to 44 from 1976 to 2009
(per cent)



Sources: Statistics Canada and Institut de la statistique du Québec.

6.4.2 Action plan for the elderly: improving their living environment and encouraging their participation

The situation of seniors is important to the government. In recent years, a number of measures have been announced to:

— increase seniors' disposable income;

— help seniors remain at home;

— better support informal caregivers.

To that end, the 2007-2008 Budget, the 2008-2009 Budget, the 2009-2010 Budget and the *Update on Québec's Economic and Financial Situation* of November 4, 2008 provided for new investments for seniors. Taking into account the 2010-2011 Budget, the investments will attain $2.4 billion over five years.

TABLE 49

Investments for seniors – Impact of the 2007-2008 Budget, the 2008-2009 Budget, the *Update on Québec's Economic and Financial Situation*, the 2009-2010 Budget and the 2010-2011 Budget

(millions of dollars)

	Full year	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	Cumulative over 5 years
BEFORE THE 2010-2011 BUDGET							
Increase seniors' disposable income							
– Retirement income splitting between spouses	117	107	125	134	144	155	665
– Enhancement of the tax credit for retirement income[1]	92	50	93	99	104	109	455
– Full indexation of the tax credit with respect to age	—	—	2	5	8	11	26
Subtotal	**209**	**157**	**220**	**238**	**256**	**275**	**1 146**
Promote home support of seniors and better assist their informal caregivers							
– Enhancement of the refundable tax credit for home support for elderly persons[2]	114	118	117	117	117	116	585
– $200-million fund over ten years for the development of respite and assistance services for informal caregivers[3]	—	20	20	20	20	20	100
– Improvement to the offering of MSSS home support services	80	80	80	80	80	80	400
– Other measures[4]	6	6	6	6	6	6	30
Subtotal	**200**	**224**	**223**	**223**	**223**	**222**	**1 115**
Measures to strengthen the place of seniors in society[5]	**5**	**13**	**18**	**18**	**18**	**18**	**86**
2010-2011 BUDGET							
– Enhancement of the refundable tax credit for home support for elderly persons	5	—	—	5	5	5	15
– Enhancement of the support for local initiatives designed to increase respect for seniors	4	—	—	4	4	4	12
Subtotal	**9**	**—**	**—**	**9**	**9**	**9**	**27**
TOTAL	**423**	**394**	**461**	**488**	**506**	**524**	**2 374**

Note: Since figures are rounded, they may not add up to the totals shown.

1 Including the successive increases from $1 000 to $1 500, then to $2 000 in the amount of the tax credit provided for in the 2007-2008 Budget and the 2008-2009 Budget, as well as the full indexation provided for in the 2008-2009 Budget.

2 Including the annual enhancement of $5 million following the broadening of eligible expenses to include food services of one meal a day (information bulletin of June 5, 2008).

3 Including an annual contribution of $5 million, i.e. $50 million over 10 years, from Sojecci II Ltée .

4 Corresponds to the refundable tax credit for volunteer respite services, the refundable tax credit for respite expenses of informal caregivers and the free medication for low-income seniors measure.

5 The following measures are concerned: specific agreements with the regional conferences of elected officers (CREs) in order to adapt services and infrastructures to the needs of the elderly; promotion of the right of seniors to dignity and the full exercise of their citizenship; promotion of the physical activity of seniors; promotion of the use of phased retirement; support for seniors who want to invest in future generations (Québec Education Savings Incentive); new support for local initiatives designed to increase respect for seniors; improvement of food services in CHSLDs; the "Age-Friendly Municipalities" initiative; action plan to counter elder abuse; and financial assistance for home adaptations for independent seniors.

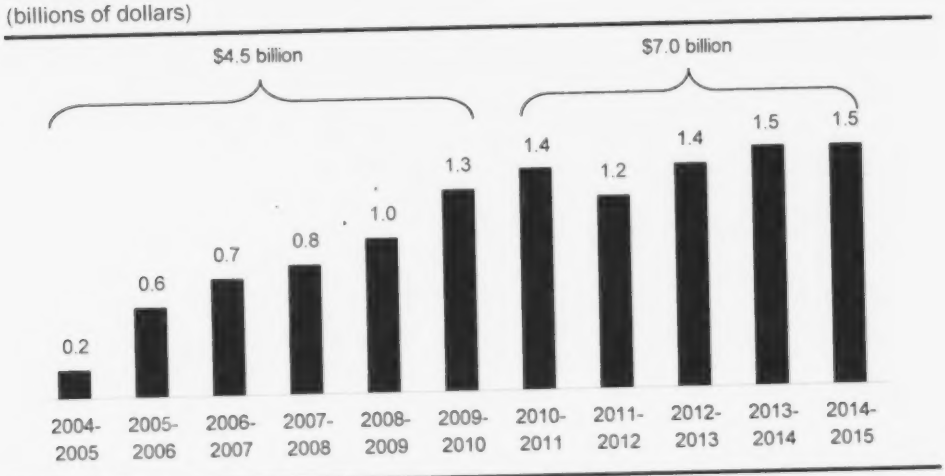
6.4.3 Plan to combat poverty: substantial gains

❑ Unprecedented investments

The investments in combating poverty and social exclusion announced in the 2010-2011 Budget, for the 2010-2015 period, and those in the previous action plan (2004-2010), total almost $11.5 billion over 11 years. That is a substantial budgetary effort.

CHART 14

Investments in the plans to combat poverty and social exclusion – 2004-2015
(billions of dollars)



Sources: Ministère des Finances du Québec and Ministère de l'Emploi et de la Solidarité sociale.

❑ Substantial gains for low-income households

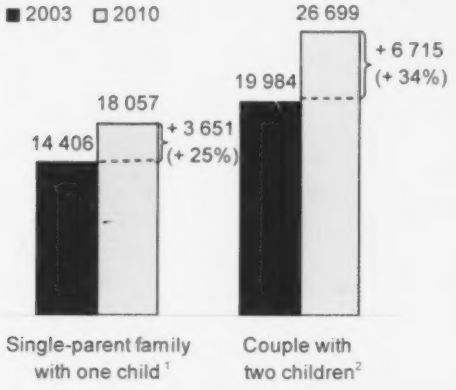
Since 2003, the disposable income of last resort financial assistance recipients has risen considerably, due, in particular, to the introduction of the child assistance payment and the work premium. The rise is:

— $3 651, that is, 25%, for a single-parent family with one child;

— $6 715, that is, 34%, for a couple with two children.

CHART 15

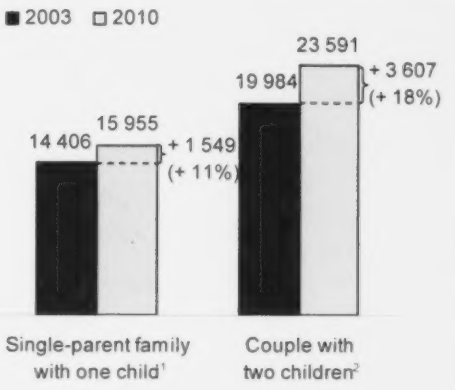
Change in the disposable income (nominal) of a family with no work income– 2003 and 2010
(current dollars)



1 Child 4 years of age.
2 Children 3 and 4 years of age.

CHART 16

Change in the real disposable income of a family with no work income – 2003 and 2010
(constant 2003 dollars)



1 Child 4 years of age.
2 Children 3 and 4 years of age.

❑ Fostering the incentive to work

The measures taken by the government have resulted in increased participation in the labour market.

■ Higher minimum wage

In addition, to increase the incentive to work, the government ensures that workers have minimum acceptable work conditions.

— The minimum wage was raised from $7.30 an hour in 2003 to $9.00 an hour on May 1, 2009.

— The minimum wage will be raised to $9.50 an hour on May 1, 2010. With that increase, Québec will rank second among Canadian provinces.

■ Work incentive tax measures

Québec has a series of tax measures aimed at encouraging people to work, including:

— the general work premium;

— the work premium for last resort financial assistance recipients with a severely limited capacity for employment;

— the work premium supplement for long-term recipients giving up last resort financial assistance.

■ Convincing results

These measures have increased the income of people entering the labour market.

— From 2003 to 2010, the gain for a person without a severely limited capacity for employment who gave up social assistance to work full time was:

  — $3 283 for a person living alone;

  — $3 967 for a single-parent family;

  — $5 083 for a couple with children.

TABLE 50

Illustration of the gain stemming from the entry of last resort financial assistance recipients into the labour market – 2003 and 2010

(dollars)

	Part time[1]			Full time[2]		
	2003	2010	Gap	2003	2010	Gap
Recipients without a severely limited capacity for employment						
Person living alone	2 752	6 526	**+ 3 774**	6 352	9 635	**+ 3 283**
Single-parent family[3]	1 644	5 178	**+ 3 534**	4 604	8 571	**+ 3 967**
Couple with children[4]	3 900	6 473	**+ 2 573**	3 900	8 983	**+ 5 083**
Recipients with a severely limited capacity for employment[5]						
Person living alone	1 540	4 085	**+ 2 545**	4 506	8 196	**+ 3 690**
Single-parent family[3]	444	4 235	**+ 3 791**	3 020	8 263	**+ 5 243**
Couple with children[4]	1 500	4 415	**+ 2 915**	1 500	6 681	**+ 5 181**
Long-term recipients[6]						
Person living alone	2 752	8 926	**+ 6 174**	6 352	12 035	**+ 5 683**
Single-parent family[3]	1 644	7 578	**+ 5 934**	4 604	10 971	**+ 6 367**
Couple with children[4]	3 900	8 873	**+ 4 973**	3 900	11 383	**+ 7 483**

1 Equivalent to 1 300 hours of work at $7.30 an hour in 2003 and $9.50 an hour in 2010.
2 Equivalent to 2 000 hours of work at $7.30 an hour in 2003 and $9.50 an hour in 2010.
3 Child age 3 with reduced-contribution child-care space.
4 Couple with a single work income and children ages 3 and 4.
5 Receive the work premium for persons with a severely limited capacity for employment and the tax credit for persons with a severe and prolonged impairment in mental or physical functions.
6 Receive the work premium supplement for long-term recipients giving up last resort financial assistance.

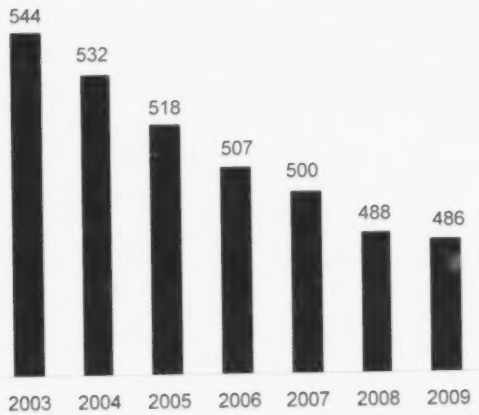
❑ A marked drop in the number of last resort financial assistance recipients

The number of last resort financial assistance recipients fell by 58 000 between March 2003 and March 2009.

CHART 17

Change in the number of last resort financial assistance recipients[1]

(thousands)

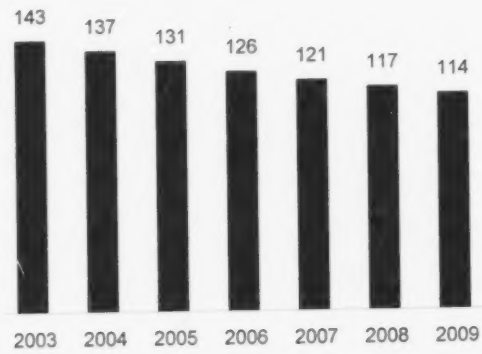


1 Number of recipients in March.
Source: Ministère de l'Emploi et de la Solidarité sociale.

CHART 18

Change in the number of last resort financial assistance recipients[1] living in a single-parent family

(thousands)



1 Number of recipients in March.
Source: Ministère de l'Emploi et de la Solidarité sociale.

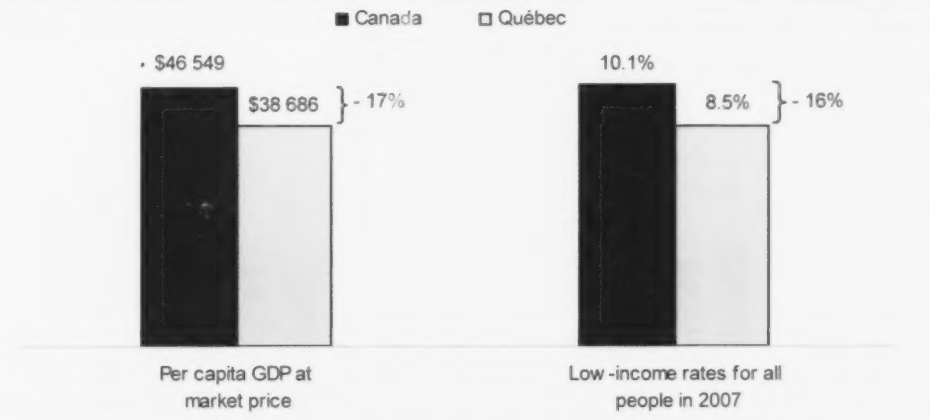
❑ Québec's advantageous position in terms of the low-income rate

The percentage of Quebecers living below the low-income cut-offs (according to the Market Basket Measure) is 16% lower than in Canada as a whole.

Québec holds an enviable position in this regard, despite a per capita GDP 17% lower than that of Canada.

CHART 19

Comparison of per capita GDP and low-income rates (MBM)[1] for all people, Québec and Canada – 2007
(dollars and per cent)



1 According to the Market Basket Measure (MBM), a household's low-income cut-off corresponds to the income required to purchase the goods and services in a typical Market Basket of food, clothing and footwear, shelter, transportation and other goods and services.

Sources: Statistics Canada and Human Resources and Skills Development Canada.

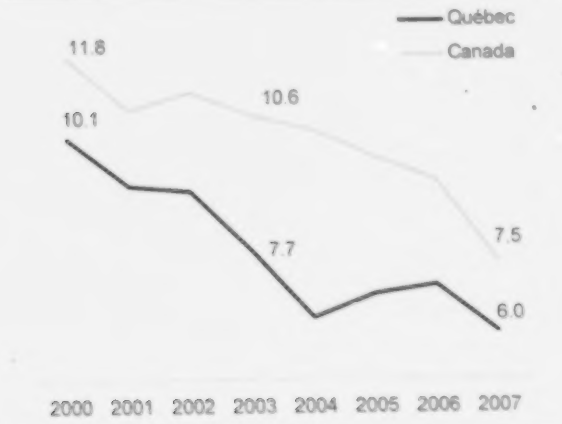
During the period from 2000 to 2007, Québec saw a significant reduction in the low-income rates based on the MBM for all types of households.

— For example, the low-income rate of economic families[6] in Québec fell from 10.1% in 2000 to 6.0% in 2007, a 40% reduction. Consequently, the relative situation of Québec families improved during the period compared with that of families in Canada as a whole. In 2007, the low-income rate of Québec families was 20% below that of families in Canada as a whole, and Québec ranked second among the Canadian provinces, after Alberta, for the lowest low-income rate for families.

CHART 20

Low-income rate of economic families in Québec and Canada – 2000 to 2007

(per cent)

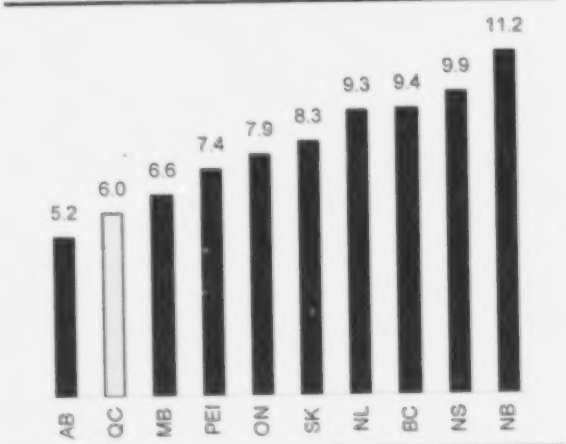


Source: Human Resources and Skills Development Canada

CHART 21

Low-income rate of economic families, by Canadian province – 2007

(per cent)



Source: Human Resources and Skills Development Canada

[6] An economic family is composed of a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage or adoption or are de facto spouses. An economic family is therefore not restricted to families with children. It may be defined as, for example, a household made up of two brothers or a couple with no children.

Québec sets itself apart primarily in the case of children and seniors.

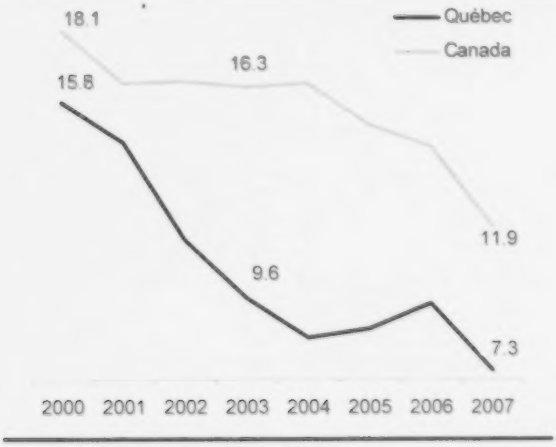
— According to the MBM, the low-income rate of children under 18 in Québec fell from 15.8% in 2000 to 7.3% in 2007, a drop of over 50%.

— By comparison, the low-income rate fell 35% for Canada as a whole. Hence, Québec's low-income rate was 40% lower than the Canadian rate in 2007, and was the lowest of all the Canadian provinces.

CHART 22

Low-income rate of children under 18 in Québec and Canada - 2000 to 2007

(per cent)

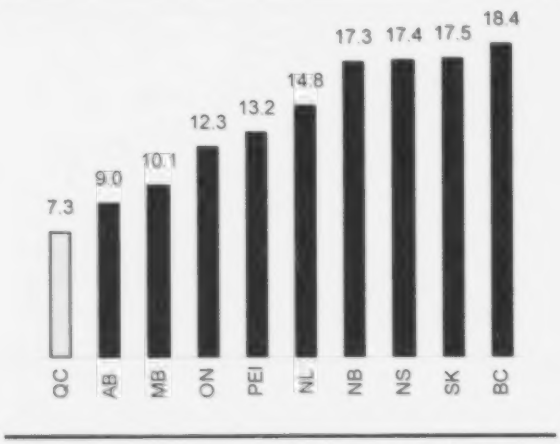


Source: Human Resources and Skills Development Canada

CHART 23

Low-income rate of children under 18, by Canadian province — 2007

(per cent)



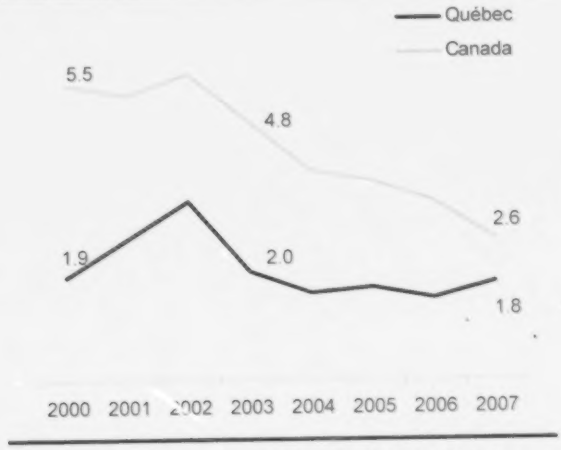
Source: Human Resources and Skills Development Canada

— Moreover, the low-income rate of seniors in Québec was 1.8% in 2007, that is, 30% below the Canadian rate. Again, Québec had the lowest rate of all the Canadian provinces.

CHART 24

Low-income rate of seniors 65 and over in Québec and Canada - 2000 to 2007

(per cent)

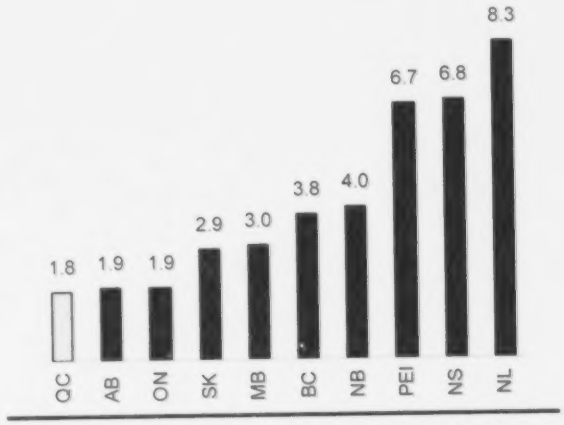


Source: Human Resources and Skills Development Canada

CHART 25

Low-income rate of seniors 65 and over, by Canadian province — 2007

(per cent)



Source: Human Resources and Skills Development Canada

PART THREE: LIBERATING THE AMBITIONS OF QUEBECERS

The action plan unveiled by the Minister of Finance under the 2010-2011 Budget provides appropriate solutions for meeting the challenges of economic recovery and public finances.

The action plan also defines an ambitious plan for building Québec over the next 20 years and liberating the ambitions of Quebecers.

To that end, the plan contains major initiatives to:

— meet the demographic challenge;

— increase our economic performance;

— support Montréal, a vital component of Québec's development;

— build a green economy;

— maintain a dynamic culture;

— ensure sustainable development by promoting intergenerational equity.

1. MEETING THE DEMOGRAPHIC CHALLENGE

Québec will undergo major demographic changes in the coming years. An aging and slower-growing population will result in fewer working-age people. These changes will have a significant impact on the labour market and, consequently, economic growth.

1.1 Impact of demographic changes on economic growth

In the coming years, demographics will no longer contribute to, but rather slow, real GDP growth:

— A decline in the number of working-age people will cause employment to contract, which means fewer people contributing to wealth creation.

— Population aging will reduce the proportion of the population that is employed.

❑ 0.8% contraction in economic growth

Under the population scenario prepared by the Institut de la statistique du Québec (ISQ), the working-age population (population 15-64 years of age) will start to shrink in 2014.

The decrease in this population group would shave 0.2 percentage points off average economic growth between 2021 and 2025, whereas it contributed an average of 0.6 points between 1982 and 2008.[7]

This means that demographic changes alone could edge real GDP growth down 0.8 percentage points annually between 2021 and 2025, compared with the average of the last 27 years.

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7 For additional information, see sub-section 4 of Section B of the *Budget Plan*, "Economic Forecasts for Québec for 2010-2025".

❑ Possible offsetting

The impact of demographic changes on economic growth can be lessened by acting on the other two factors of growth, namely, productivity and employment.

— The pace of growth in labour productivity – output per job – is expected to pick up in the coming years. Between 1982 and 2008, Québec's economy grew at an average annual rate of 2.1%. To sustain economic growth at 2%, the government is employing a scenario of 1.2% annual growth in output per job between 2021 and 2025.

— As well, an increase in the employment rate would partially offset the impact of demographic changes on economic growth. Under this scenario, which assumes economic will be kept at 2%, the employment rate should add an average of 0.7 percentage points to economic growth per year from 2021 to 2025.

These, therefore, are the two directions in which efforts must be made to mitigate the effects of demographic changes on economic growth. Introducing or improving public policies can help achieve this objective.

— All of the government's efforts to create more wealth in every region of Québec will contribute to increasing productivity.

— Raising the employment rate means getting people who are not working – retirees, students or unemployed people not seeking employment – into the labour force. It also requires looking at the participation of women in the labour market.

1.2 Creation of the Commission nationale sur la participation au marché du travail

The demographics of Québec are such that innovative initiatives must be taken to at least partially offset the shrinking labour force. To that end, the government is initiating reflection on labour market participation by establishing the Commission nationale sur la participation au marché du travail.

The Commission will be run by two co-presidents, Françoise Bertrand, president of the Fédération des chambres de commerce du Québec, and Gilles Demers, a former deputy minister within the Québec government.

❑ Mandate of the Commission

The Commission will report to the Minister of Finance and the Minister of Employment and Social Solidarity, who have been mandated by the premier to identify means available to the government to curtail or reverse the impact of demographic changes on the economy, social programs and quality of life of Quebecers.

The Commission will submit an interim report in February 2011. The final report will be submitted the following fall.

The mission of the Commission is as follows:

- In follow-up to the economic forum held in Lévis in January 2010, the commission will draw up a list of issues associated with the impact of population aging on economic growth and identify the conditions needed to address them.
- One of the priorities of the commission will be to examine the relatively low labour market participation of people age 55-70 in Québec compared with other jurisdictions, particularly Ontario.
- The commission will recommend changes to current policies and, eventually, institutions to increase participation in the labour market.
- The commission will ensure that the recommended changes take into account the economic, cultural and social realities of Quebecers in all of the regions.
- The commission will take into consideration the fact that the government cannot be solely responsible for getting more people into the labour force. It is clear that increasing labour market participation demands that every player – businesses, workers, unions, governments, etc. – do its part and be willing to question and explore new and innovative work organization models.

To fulfil its mandate, the commission may consult:

- experts in the field;
- unions and employers;
- workers and businesses;
- people 55-70 years of age;
- the general population.

The commission will have a research budget of $1 million for the next two years.

The commission will be supported by the Ministère des Finances, the Ministère de l'Emploi et de la Solidarité sociale and the Régie des rentes du Québec.

❑ Contribution of experienced workers (age 55-70)

The Commission will address and explore such issues as:

- Why don't Quebecers keep working longer?
- What do countries and provinces where the average retirement age is higher do?
- How can our experienced workers be encouraged to remain in the job market longer?
  - Does our tax system provide incentives?
  - Should we introduce, for example, fiscal measures or special programs for experienced workers?
- Do Québec businesses have an optimal work organization?
  - Should we follow France's example and encourage businesses to adopt special incentive measures to retain experienced workers
- How can we cope with the growth in atypical work?
- Are our retirement plans suited to the demographic context?

2. PULLING THE RIGHT LEVERS TO IMPROVE OUR PERFORMANCE

Securing a bright future for Québec is largely dependent on improving our performance in an increasingly competitive world. To that end, the government is pulling the right levers with the 2010-2011 Budget by:

— providing additional resources for university education, which is key to a successful society and a modern economy;

— investing in a productive and innovative economy through the Québec Research and Innovation Strategy, which is being extended for three years;

— making our business environment even more competitive, thanks to additional support for businesses and exporter SMEs.

TABLE 51

Cost to the government of the measures for improving our performance
(millions of dollars)

	2010-2011	2011-2012	2012-2013	Total
Vocational and technical training	5.0	15.0	15.0	**35.0**
Research and innovation	135.4	201.4	203.8	**540.6**
Additional support for exporter SMEs	2.3	4.8	4.9	**12.0**
Support for entrepreneurship[1]	0.8	1.0	1.2	**3.0**
TOTAL	**143.5**	**222.2**	**224.9**	**590.6**

1 Including the impact of the Fonds d'investissement pour la relève agricole on the government's debt service.

2.1 Education, key to a successful society and a modern economy

2.1.1 $75 million for vocational and technical training that meets labour market needs

For Québec's economy to remain competitive and continue to develop, it is crucial to provide adequate training to the workers of tomorrow. A qualified, rapidly trained labour force will make it possible to avoid any labour shortages in the various activity sectors.

To render the economy more competitive, future vocational and technical training graduates must be able to acquire the skills and expertise expected by businesses in an economy facing ever greater competition.

This is why the government is introducing two initiatives to provide for a better match between vocational and technical training and the needs of the labour market:

— $50 million for deploying vocational and technical training in the regions;

— $25 million to improve the facilities used by vocational technical training centres and public colleges.

❑ $50 million to deploy vocational and technical training in the regions

In order to implement the regional development plans for the supply of training at the secondary and college level, the government intends to launch a vocational and technical training redeployment strategy. This investment will result in the deployment of study programs throughout the regions of Québec, primarily in the sectors of health, educational services and information and communications technologies.

❑ $25 million to meet the new requirements of the work environment

The facilities and technological equipment used by a number of Québec's training programs are no longer adequate for acquiring skills that are in line with the current realities of the labour market.

To provide for a better match between the training offered to students and the requirements of their future careers, the government intends to invest $25 million to update study programs and modernize vocational and technical training facilities.

These sums will enable Québec's school boards and colleges to acquire the facilities needed to update vocational and technical training programs.

2.1.2 More resources for universities

The Québec government contributes substantially to covering universities' operating costs.

In 2007-2008, public funding accounted for over two thirds of total university spending in Québec, compared with about 59% in the rest of Canada.

Furthermore, Québec universities are among the best funded universities in Canada, not only with regard to total per-student spending but also total spending as a percentage of GDP.

TABLE 52

Total university spending[1]
Québec and regions of Canada – 2007-2008
(in dollars and as a percentage of GDP)

	Total per-student spending in $	Total spending as a % of GDP	% of public funding	% of private funding
Québec	**27 995**	**1.87**	**67.9**	**32.1**
Canada without Québec	27 692	1.54	58.6	41.4
- Atlantic provinces	24 883	1.98	55.5	44.5
- Ontario	25 673	1.68	52.8	47.2
- Western provinces	31 892	1.35	66.8	33.2

1 Total university spending includes the general operating fund, the endowment fund, the research fund and the capital fund. The basic data used to calculate total university spending relative to GDP come from the Canadian Association of University Business Officers (CAUBO) and Statistics Canada.
2 Source: Ministère de l'Éducation, du Loisir et du Sport.

❑ Substantial increase in public funding since 2003

From 2003-2004 to 2009-2010, government transfers to universities rose by an average of 5.9% per year, a rate of spending growth comparable with the increase in health spending.

TABLE 53

Québec government transfers to universities
(millions of dollars and per cent)

	Transfers to universities	Change	
	$ million	$ million	%
2003-2004	2 029	158	8.4
2004-2005	2 140	111	5.5
2005-2006	2 266	126	5.9
2006-2007	2 354	88	3.9
2007-2008	2 478	124	5.3
2008-2009	2 784[1]	306	12.3
2009-2010	2 800[2]	16	0.6
AVERAGE ANNUAL GROWTH		**133**	**5.9**

Note: Including subsidized debt service.
1 Excluding $200 million for the trust relating to the Îlot Voyageur (Université du Québec à Montréal).
2 Probable 2009-2010 expenditures.

❑ Increase in tuition fees

Enhancing resources for universities to enable them to develop, inevitably involves raising tuition fees. The government has made specific commitments with respect to tuition fee increases, up to 2011-2012.

To establish the terms of any such increases, the Ministère de l'Éducation, du Loisir et du Sport will initiate a process that will lead to a meeting with education partners in the fall. This meeting will focus on the performance of the university network and universities' overall efficiency in teaching, research and management.

The meeting will also provide an opportunity to discuss the resources that need to be devoted to university education, particularly with regard to levels, sources and terms of funding.

The quality of teaching and research, as well as access to university, will be central to the discussions.

This meeting of education partners will also offer an opportunity to discuss other issues such as:

— educational democracy;

— the alignment of education with future labour market needs.

Therefore, the government is announcing that it will adjust university tuition fees as of fall 2012. The adjustment will be made based on what is deemed to be a fair and equitable share of tuition fee funding for students to have to bear. This share is currently 12.5%.

The government will ensure that the Loans and Bursaries Program will continue to make university education financially accessible.

2.2 A creative and innovative economy

2.2.1 The Québec research and innovation strategy updated and extended

Québec's economic and social prosperity and its future development depend on its capacity to innovate and participate actively in the new economy. Like its main partners and all advanced countries, Québec is focusing on research and innovation to ensure sustainable growth and the creation of quality jobs.

— The Québec government has invested $1.166 million over four years in research and innovation through the Québec research and innovation strategy – *An Innovative and Prosperous Québec* (QRIS), which will come to an end March 31, 2010.

— The government must continue its efforts to support research and innovation so that Québec and its businesses become world leaders in innovation.

Accordingly, the 2010-2011 Budget provides for the updating of the QRIS and its extension for three years. The details of the measures will soon be revealed by the Minister of Economic Development, Innovation and Export Trade.

2.2.1.1 Investments of over $1.1 billion over three years for research and innovation

The government will allocate roughly $1.1 billion from 2010-2011 to 2012-2013 to support research and innovation, with:

— the updating and extension of QRIS programs ($461 million over three years);

— continuation of the fiscal measures introduced in 2006 under the QRIS ($80 million over three years);

— additional investments in research infrastructures ($342 million over three years);

— three technology demonstration catalyst projects (total investment of $130 million over four years);

— three seed funds totalling $125 million announced in the 2009-2010 Budget.

TABLE 54

Measures encouraging research and innovation
(millions of dollars)

	2010-2011	2011-2012	2012-2013	Total
Extension of the QRIS	115.4	171.4	173.8	460.6
Continuation of QRIS fiscal measures	26.6	26.7	26.7	80.0
Infrastructure investments[1]	80.8	80.8	180.8	342.4
Catalyst projects				
- Green aircraft	10.0	20.0	40.0[2]	70.0
- Green chemistry	10.0	10.0	10.0	30.0
- Electric buses	8.0	10.0	12.0	30.0
Subtotal – QRIS	**250.8**	**318.9**	**443.3**	**1 013.0**
Seed funds	125.0	—	—	125.0
TOTAL	**375.8**	**318.9**	**443.3**	**1 138.0**

1 Value of investments.
2 Including $20 million funded for 2013-2014.

2.2.1.2 Continuation of research and development initiatives

Over the next three years, investments of $461 million will be made under the extension of the QRIS to maintain existing programs.

In particular, these funds will help:

— ensure continuation of activities and work undertaken by businesses and researchers in recent years;

— sustain the seeding of technology businesses and technology intensification;

— maintain the on-the-job training bursaries program.

The changes regarding the tax credit for R&D and the tax credit for design, in particular the rise in the amounts of eligible assets giving rise to the tax credits at the higher rate continue to apply. These measures represent additional annual assistance of roughly $27 million.

Investments in research infrastructures totalling $342 million, included in the Québec Infrastructures Plan (QIP), will also be made over the next three years.

In the last budget, the government announced three new seed funds totalling $125 million. These funds will support technology companies at the seed stage based in Québec. On March 3, 2010, the selection committee headed by Martin Godbout proposed the following three funds:

— FounderFuel Ventures (information and communications technology);

— Cycle – C3E (green technologies);

— AmorChem (life sciences).

2.2.1.3 Three new technology demonstration catalyst projects in the aeronautics, forest and electric vehicles sectors

The government will support key sectors of the economy by funding catalyst projects focusing on government priorities. These projects target the development of the aeronautics industry consistent with sustainable development principles, the revival of the pulp and paper industry through green chemistry and the development of electric buses.

The projects will be carried out in partnership with a large number of Québec manufacturers to foster economic spinoffs in Québec. They will solicit players from various backgrounds (businesses, universities, research centres, governments) in pursuing concrete objectives that could not be achieved working alone.

These catalyst projects emerged from research that must now be moved to the demonstration and engineering development stage. In addition to contributing to the creation of high value-added jobs and training of qualified workers, the catalyst projects will enable Québec to develop know-how in advanced sectors and strengthen ties between major contract givers and Québec SMEs.

❑ Catalyst project in the aeronautics sector

The aeronautics industry is a priority for Québec. With revenue of $12 billion, it is a major source of wealth for Québec's economy.

However, the industry is facing two challenges: protection of the environment and stiff competition.

— Climate change and new environmental rules require that the aeronautics industry adapt and develop more environmentally-friendly aircraft. Today, the aeronautics industry accounts for 2% of the carbon produced as a result of human activity. With air traffic growing by 5% per year, the environmental effects can only increase if nothing is done to produce more environmentally-friendly aircraft.

— Québec's aeronautics industry faces competition from many countries. For example, nations like Russia, Brazil and Japan are determined to better position their aeronautics industry. There are also low-production-cost emerging countries like China, India, South Korea and Mexico that are also seeking to penetrate the aeronautics market.

To remain competitive, Québec must invest in innovation and the development of green technologies. Currently, Québec has no support structure for the demonstration of new aeronautical technologies, as is the case in Europe with the Clean Sky initiative.

The Clean Sky Initiative

The air transportation sector is one of the sectors chosen to be part of joint technology initiatives (JTI) set up under the European Union's research program, the seventh framework program.

Jtis are public-private partnerships in key sectors for which research and development may contribute to improving Europe's competitiveness and which do not satisfy the criteria of traditional assistance programs. These initiatives support transnational cooperation in major sectors of industrial research and seek to develop strong ties between the research community and industry.

The initiative in the air transport sector, called the Clean Sky Initiative, aims to foster technological development and reduce the time required to market new solutions tested on demonstrators. The initiative has a budget of €1.6 billion funded on an equal basis by the European Union and the aeronautics industry.

Clean Sky will help demonstrate and validate new technologies for achieving the goals set by the Advisory Council for Aeronautics Research in Europe, that involve:

- reducing CO_2 emissions by 50% by achieving major cuts in fuel consumption;
- reducing nitrogen oxide emissions by 80%;
- reducing external noise by 50%;
- having a greener life cycle, in particular regarding the manufacturing, maintenance and recycling of an airplane.

To support new aeronautics technology demonstration initiatives, the 2010-2011 Budget stipulates the implementation of a catalyst project: the green aircraft project.

This catalyst project consists in setting up a structuring public-private partnership under which new concepts developed in universities and research centres can be tested on the aircraft of the future.

— This project will incorporate, in particular, concepts developed by the Consortium de recherche et d'innovation en aérospatiale au Québec, to bring them closer to their potential application. The catalyst project will thus target five fields in which companies established in Québec have advanced expertise.

TABLE 55

Green aircraft catalyst project

Fields of specialization	Companies
Composite materials aircraft fuselage structures	Bombardier Aerospace and Bell Helicopter Textron
More electric engines	Pratt & Whitney Canada
Integrated avionics for cockpit applications	Esterline CMC
Integrated avionics for critical systems	Thales Canada
Landing gear of the future	Héroux-Devtek

Under this partnership, the industry will be benefit from the infrastructure and expertise of the research community to demonstrate new technologies. Under this project, it will be possible to intensify activities involving design and laboratory validation of components or products, as well as activities involved in the demonstration of prototypes in an adequate environment, such as a flight simulator or an airplane.

In addition, by fostering linkages among SMEs, equipment makers and large manufacturers, this project will make the Québec industry more competitive and will foster the incorporation of Québec content in new green aircraft development platforms.

The government will invest $70 million over four years to fund this catalyst project. Including the industry's contribution of $80 million, investments will total $150 million over four years.

TABLE 56

Funding of the green aircraft catalyst project
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	Total
Québec government's participation	10	20	20	20	**70**
Industry participation	20	20	20	20	**80**
TOTAL	**30**	**40**	**40**	**40**	**150**

❑ Catalyst project for the recovery of the pulp and paper industry through green chemistry

The pulp and paper industry is facing fierce competition, in particular from Asia and South America. It must therefore innovate to develop new products and stand out from its competitors.

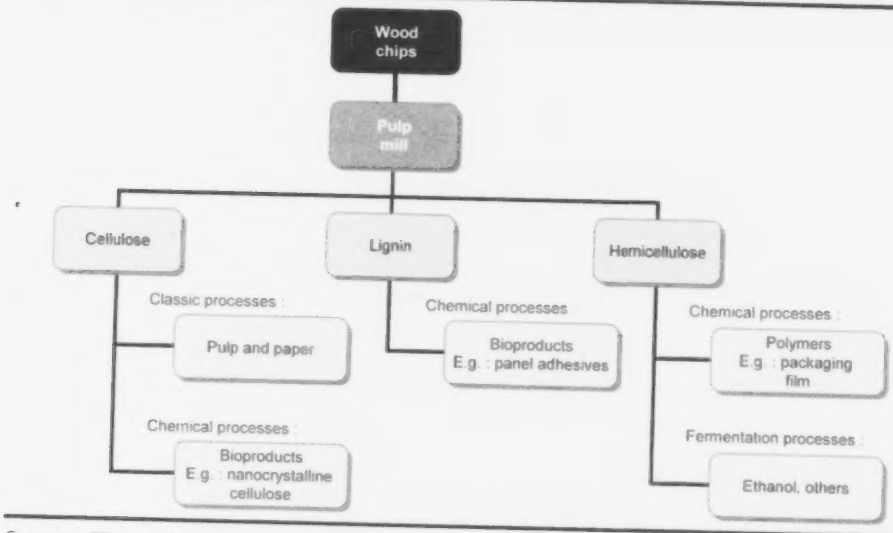
— Biorefining, also known as green chemistry, is a technology in which Québec has know-how and that can green and diversify the pulp and paper industry.

— This is considered a green technology because it uses a natural, renewable and carbon-neutral raw material: forest biomass.

— It can be used to develop biofuels (e.g.: cellulosic ethanol) and bioproducts (e.g.: nanocrystalline cellulose), that perform better than other products from an environmental standpoint thanks to methodology similar to that used in the petrochemical industry.

CHART 26

Diagram of forest biorefining



Sources: FPInnovations and ministère des Finances du Québec.

FPInnovations, a non-profit forest research institute, has developed technology for producing a very promising bioproduct, nanocrystalline cellulose, from wood fibre. FPInnovations will test this technology on a large-scale in a pilot plant. Research is being conducted into other bioproducts that could be ready for demonstration in the near future.

To develop Québec's biorefining know-how, the government is announcing a new green chemistry catalyst project in pulp and paper mills. The Minister of Natural Resources and Wildlife will be responsible for this initiative.

— The government will allocate an envelope of $30 million over three years to this catalyst project that will support technology demonstration activities in the biorefining field, such as the production of prototypes and construction of pilot plants.

— Part of the funds will be allocated to FPInnovations's research work to improve knowledge in the biorefining sector. In particular, the research seeks to develop new applications for wood fibre and accelerate technology transfer and demonstration. Two prototype projects targeting the production of bioproducts will be carried out and could lead to other pilot plant projects being started over the coming years.

TABLE 57

Funding of the green chemistry project
(millions of dollars)

	2010-2011	2011-2012	2012-2013	Total
Québec government	10	10	10	30
Federal government	10	—	—	10
Industry	10	—	—	10
TOTAL	**30**	**10**	**10**	**50**

❑ Catalyst project for the development of electric buses in Québec

The catalyst project for the development of electric buses will be a major component of the action plan on electric vehicles that is currently being developed. The broad outlines of this project are described in section 4.1.3 below.

The project to develop electric buses will be an integral part of the QRIS because of its high degree of innovation.

2.3 A competitive business environment

2.3.1 Additional support for exporting SMEs

Québec is a small, open economy. Its exports on Canadian and foreign markets are important to its prosperity.

As an indication, in 2007, an estimated 1.1 million jobs, or almost 30% of the total number of jobs in Québec, were related to exports of goods and services. Of this number, 55% depended on foreign sales and 45% on sales to the other provinces.

TABLE 58

Job relating to exports – 2007

	Jobs	Relative weight (%)	Jobs per million dollars of exports
Foreign exports	604 000	55	7.0
Exports to other provinces	495 700	45	8.5
Total	**1 099 700**	**100**	**7.6**

Source: Institut de la statistique du Québec, *Impact économique des exportations québécoises 2005 et 2007*, January 2010.

Moreover, Québec's exports depend on a large number of businesses selling their products and services in other provinces or abroad.

Québec has some 10 000 establishments that export goods abroad, of which roughly 94% are SMEs with fewer than 200 employees.

❑ The global economic slowdown hit our exporting businesses hard

Québec's economy is highly integrated with the American economy since 72% of its international exports are shipped there. Québec's exports to the United States include machinery and equipment, consumer goods, intermediate products like hardware and software, transportation equipment, as well as building materials.

The decline in American demand, combined with the strength of the Canadian dollar, caused Québec's exports to drop substantially in 2009.

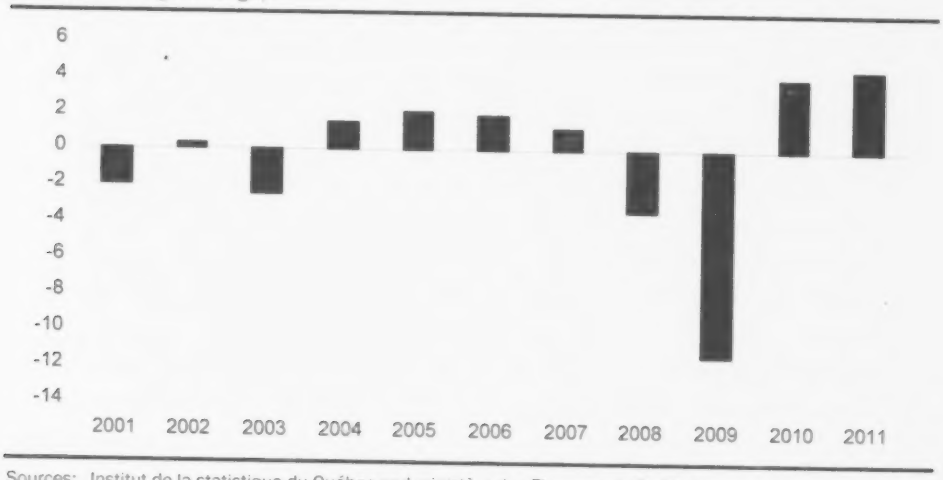
— Because of the high degree of integration of Québec's economy with the US market, Québec's total exports fell 11.4% in 2009.

However, global demand is expected to recover, in particular American domestic demand for foreign products and natural resources, which should lead to a rebound in Québec's exports in 2010 and 2011.

Real American imports should grow by 9.5% in 2010 and 6.1% in 2011, which will stimulate Québec's trade.

CHART 27

Total Québec exports
(real percentage change)



Sources: Institut de la statistique du Québec and ministère des Finances du Québec.

❑ Two challenges for our businesses: capitalize on the recovery of the American economy and succeed on emerging markets

Because of a more favourable economic situation, Québec businesses have many business opportunities available to them on the American market, where they have long had close business ties.

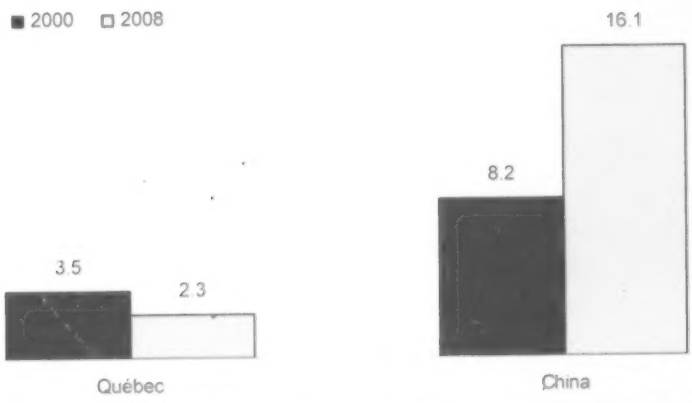
■ Capitalize on the recovery of the American economy

To capitalize on the gathering economic recovery, exporting businesses, SMEs in particular, will have to be able to compete with foreign companies and offer distinctive products to consolidate their place on American markets.

For the last 10 years, the intensification of foreign competition resulting from the arrival of new competitors like China and India is threatening the market shares of Québec businesses in the United States.

CHART 28

Shares of the American market
(shares of total American imports, per cent)



Sources: Institut de la statistique du Québec and IHS Global Insight.

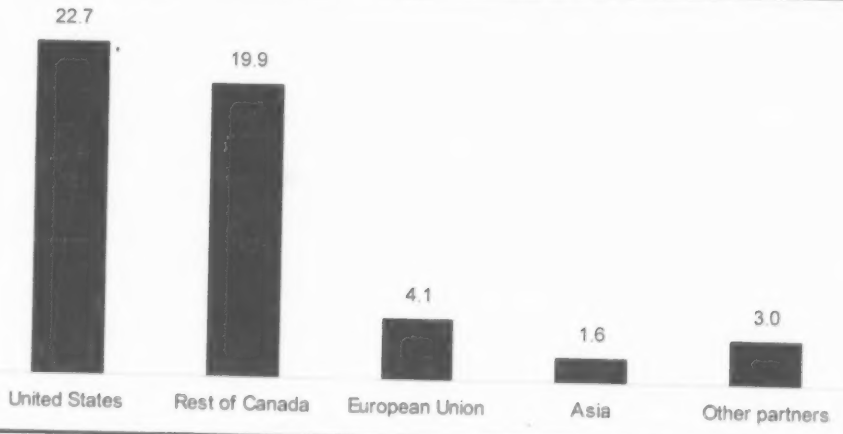
❑ Succeed on emerging markets

Québec's exporting businesses will have to stand out to benefit from new opportunities on emerging markets, like China and India that will be the most dynamic component of the global economic recovery.

Currently, Asia still remains a marginal export market, with the value of Québec's exports to Asia accounting for only 1.6% of Québec's nominal GDP.

CHART 29

Value of Québec's exports by trading partner in 2008
(as a percentage of Québec's nominal GDP)



Sources: Institut de la statistique du Québec, Statistics Canada and ministère des Finances du Québec.

■ **The need to act to stimulate exports**

Québec businesses face stiff competition on export markets. They must constantly invest to become more productive and remain competitive.

— Constant productivity improvement and the search for new markets represent considerable costs that may be difficult for businesses, especially growing SMEs, to absorb.

— Some businesses, though in good financial health, are unable to obtain the financing they need from financial institutions for their foreign market expansion projects. This lack of cash resources slows the growth of businesses that must delay their expansion projects.

In this regard, the risks associated with export activities prompt financial institutions to be cautious.

— The chances of success of exporting business are difficult to estimate.

— Foreign expansion projects often occur as a result of acquisition of intangible assets whose real value for the lender is difficult to establish. For example, this type of project can include the acquisition of trademarks, the creation of strategic alliances, the acquisition of businesses or distribution networks, as well as forming foreign subsidiaries or opening a sales office.

Moreover, businesses will little experience need support and assistance to start exporting their products.

2.3.2 Additional investments of $655 million to support the growth of businesses and stimulate exports

In the 2010-2011 Budget, the government is continuing the efforts taken to better position our businesses, in particular exporting SMEs, and capitalize on the gathering recovery.

— Since 2003, many measures have been put in place to improve the productivity of Québec businesses. Among others, these measures are designed to stimulate investment, research and development, innovation, and worker training.

— In addition, the many trade missions to foreign countries and Québec's participation in treaty negotiations to expand free-trade spaces are helping our businesses gain access to foreign markets.

❑ Three new initiatives to support the growth of businesses and exports

In partnership with the Capital régional et coopératif Desjardins (CRCD) investment fund, the Mouvement Desjardins and the Caisse de dépôt et placement du Québec (CDPQ), the government is planning a capital contribution of $655 million for SMEs, among others those that export, so that they can capitalize on the economic recovery and develop new export markets.

TABLE 59

Three new initiatives to support the growth of businesses and exports – 2010-2011 Budget
(millions of dollars)

	Investments over three years	2010-2011	2011-2012	2012-2013	Total
$600 million of additional capital made available to our SMEs over the next three years	600.0	—	—	—	—
$50-million envelope for the financing of expansion projects of exporting SMEs	50.0	2.3	4.8	4.9	**12.0**
Support for market diversification[1]	5.0	5.0	—	—	**5.0**
TOTAL	**655.0**	**7.3**	**4.8**	**4.8**	**17.0**

1 The financing for this measure is funded in the budgetary envelope of the Ministère du Développement économique, de l'Innovation et de l'Exportation.

2.3.2.1 $600 million of additional capital made available to our SMEs over the next three years

The CDPQ, the Mouvement Desjardins and CRCD announced, last January 19, that they had entered into an agreement to make a $600-million capital pool available to Québec businesses, over the next three years, to support their development and their growth.

This agreement has three components:

— $200 million to capitalize a fund – Capital Croissance PME – designed for promising small businesses and for financings of less than $3 million. These financings will consist chiefly of subordinated loans.

— $300 million for financial requirements greater than $5 million of medium-size businesses. These financings will consist of traditional term loans of from five to seven years.

— $100 million in capital stock and quasi-capital stock for medium-size businesses.

This joint initiative will increase the supply of financing for Québec businesses and should facilitate the financing of many exporting businesses.

To facilitate the implementation of this initiative benefiting businesses in Québec, the government will amend the Act constituting Capital régional et coopératif Desjardins to make part of the investments made under this agreement eligible for its investment requirement.

2.3.2.2 $50-million commitment envelope to foster the capitalization of exporting SMEs

The government will provide Investissement Québec with a $50-million commitment envelope over three years to foster the capitalization of exporting SMEs. This envelope could enable Investissement Québec to increase its operations with exporting businesses by almost 25% per year.

It will enable Investissement Québec to offer quasi-equity, in particular in the form of convertible debentures that may be repaid over 10 years.

For some of our exporting businesses, this measure could meet a real need that existing facilities cannot satisfy. Accordingly, Investissement Québec will be in a better position to respond to the needs of exporting SMEs that will be able to make the investments needed to become more competitive and thus better position themselves on export markets.

2.3.2.3 Support for export market diversification

The growth of Asian emerging economies is expected to lead that of other economies over the coming years. Asia's economic weight is expected to reach 23% of real global GDP in 2011, compared with 15% only ten years ago. Growth of domestic demand in these countries is an important market for exporting countries. Accordingly, our exporting SMEs would do well to begin thinking right away of how to position themselves on these markets of the future.

In the 2010-2011 Budget, the government is announcing an intensification of the efforts taken to diversify the markets of Québec's exporting SMEs. To that end, the Ministère du economic development, de l'Innovation et de l'Exportation will allocate $5 million, from its stipulated envelope for 2010-2011, to the funding of measures and activities targeting export market diversification for our SMEs. The options that have been retained will be specified in the near future.

Review of existing export support measures

Government programs to support and assist exports

The government offers various export assistance programs, such as:

- the business assistance program (BAP), export component, administered by the Ministère du economic development, de l'Innovation et de l'Exportation;
- the new "Exportateurs de classe mondiale" program, managed by the Agri-Food Export Group Québec-Canada, that seeks in particular to better prepare agri-food businesses to export;
- the SMB Financial program, administered by Investissement Québec, that extends financing to exporting companies that want to develop new markets outside Québec.

The objectives of these assistance programs are to:

- facilitate initial foreign sales;
- export continuously;
- develop and consolidate promising new markets.

A favourable tax system for investment

Stimulating investment enables our exporting businesses to be better equipped to face competition on markets. The chief measures introduced since 2003 to encourage businesses to invest are:

- the elimination of the capital tax;
- the introduction of an investment tax credit;
- accelerated depreciation for manufacturing and processing equipment as well as for computer hardware.

Various sources of capital for exporting businesses

Exporting companies can also rely on a variety of source of capital to obtain financing for their export activities.

- Québec government corporations complete the offerings of financial institutions:
  1. the Société générale de financement (equity participations and loans);
  2. the Caisse de dépôt et placement du Québec (equity participations and others);
  3. Investissement Québec (loans, loan guarantee and equity participations through the FIERs).
- Tax-advantaged funds are also part of the supply of financing: the Fonds de solidarité FTQ, Fondaction and Capital régional et coopératif Desjardins (equity participations, equity type loans, etc.).

Measures to foster innovation

To stand out from the competition and seize business opportunities, exporting companies must innovate and incorporate all the potential gains from improving productivity into their production processes. Québec provides these companies with a very favourable environment for R&D and innovation.

- Generous tax assistance for R&D.
- Various support measures as part of the Québec research and innovation strategy, which has been extended for the next three years.

2.3.3 Support entrepreneurship

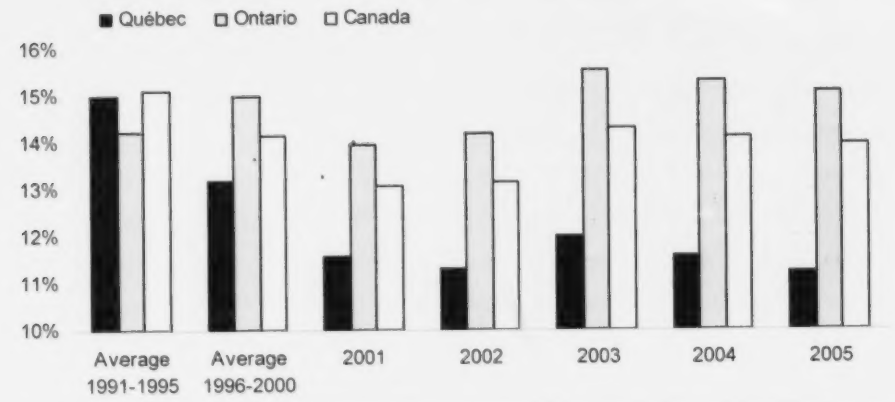
New businesses have a significant impact on the economy since they generate jobs, foster innovation and contribute to the economic vitality of communities.

Over the past roughly fifteen years, the rate of business creation in Québec has been falling and the gap with Ontario and Canada as a whole is widening.

Had Québec had a growth rate similar to Ontario's, almost 50 000 more businesses would have been created over the period from 1991 to 2005.

CHART 30

Rate of business creation
(percentage change)



Sources: Ministère des Finances du Québec and Statistics Canada, Small Business and Special Surveys Division, personalized data produced under the Longitudinal Employment Analysis Program.

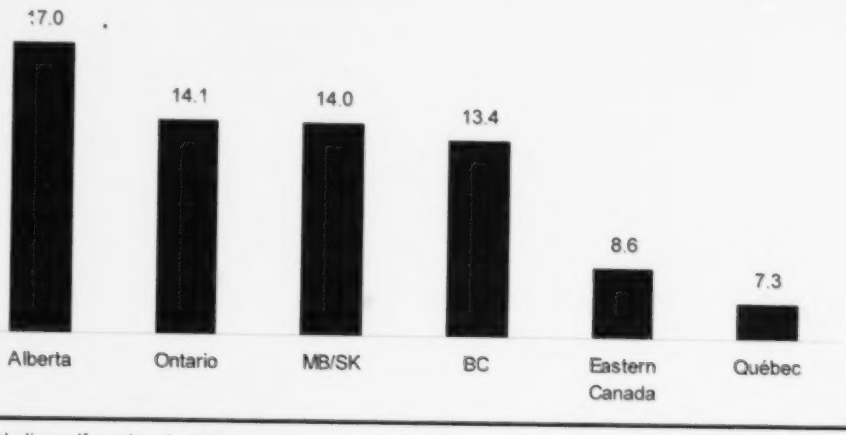
Accordingly, Québec's business ownership rate has historically been below the Canadian average.

— According to the Fondation de l'entrepreneurship's Indice entrepreneurial québécois published in February 2009, the pool of active entrepreneurs in Québec is only half of what it is in the rest of Canada.

— Québec ranks last among the regions of Canada in terms of number of business owners.

CHART 31

Proportion of those age 18 or over who were business owners in 2009[1]
(per cent)



1 Including self-employed workers.
Source: Entrepreneurial index of the Fondation de l'entrepreneurship.

The chances are that this trend will continue if nothing is done because, according to the entrepreneurial index, a lower proportion of Quebecers, compared to the rest of Canada, considers itself capable and skilled enough to start a business.

— This proportion is 45% in Québec, compared with 55% in the rest of Canada.

It is therefore important to act now to foster entrepreneurship in Québec:

— by making available to young agricultural entrepreneurs financing adapted to their needs;

— by offering support to entrepreneurs who want to develop international markets.

TABLE 60

Measures to support entrepreneurship
(millions of dollars)

	2010-2011	2011-2012	2012-2013	Total
$75-million Fonds d'investissement pour la relève agricole[1]	0.2	0.4	0.6	**1.2**
Croissance Québec Techno	0.6	0.6	0.6	**1.8**
TOTAL	**0.8**	**1.0**	**1.2**	**3.0**

1 Impact on the government's debt service.

To that end, the ministère du Développement économique, de l'Innovation et de l'Exportation will table an entrepreneurship strategy in the near future.

2.3.3.1 Creation of the $75-million Fonds d'investissement pour la relève agricole

Agriculture has an essential economic mission. A wealth creator, this sector is a pillar of economic and social vitality in many regions of Québec.

The farm population is aging and its replacement is not guaranteed. In 2006, 33% of farm producers were over age 55 and only 15% were under age 40.[8]

— Historically, agricultural operations were transferred within families, from parents to children, thus ensuring continuity. Mirroring the situation in Québec, the demographic situation of the farming community has changed. Transfers of agricultural operations within families are no longer enough to ensure the sector's continuity and renewal.

— Henceforth, the future of farming will depend more on start-ups by young agricultural entrepreneurs and transfers of operations outside families. However, this prospect is compromised by the extremely high cost of farm assets and the difficulties young agricultural entrepreneurs face in obtaining capital and financing.

Existing financing facilities are not enough to meet all the financing requirements, which are steep for start-ups and transfers of operations. For example, regarding capital stock, venture capital financing is neither adapted to nor designed for the realities of the agricultural sector.

This situation has repercussions on the sector's diversification and regional economic development because start-up entrepreneurs with no family connection to their agricultural operation work mainly in small, specialty niche businesses.

8 COMMISSION SUR L'AVENIR DE L'AGRICULTURE ET DE L'AGROALIMENTAIRE QUÉBÉCOIS, *Agriculture and Agrifood: Securing and Building the Future*, Final Report, 2008.

❑ A partnership between the Québec government, Capital régional et coopératif Desjardins and Fonds de solidarité FTQ

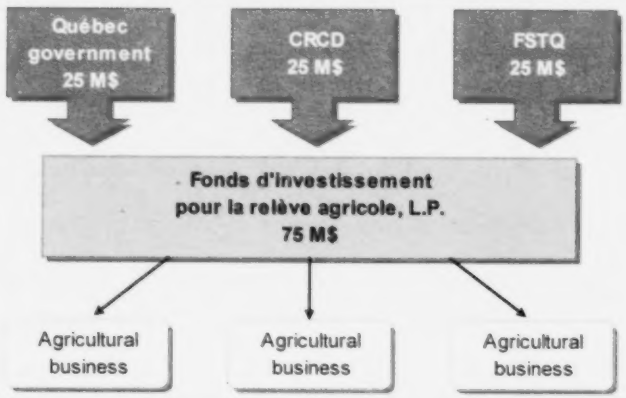
To foster the next generation and stimulate entrepreneurship in the agricultural sector, the 2010-2011 Budget stipulates the creation of a $75-million investment fund for young agricultural entrepreneurs: the Fonds d'investissement pour la relève agricole (FIRA).

— The government, through its mandatary, La Financière agricole du Québec (FADQ), will make a contribution of $25 million to FIRA. In addition, Capital régional et coopératif Desjardins and the Fonds de solidarité FTQ (FSTQ) will each invest $25 million in the fund.

— FIRA will be managed privately as a limited partnership. An independent manager will be charged with managing the fund.

CHART 32

Structure and capitalization of FIRA



Because of its established know-how in farm financing and its familiarity with the agricultural community, the FADQ will make its experience in analyzing cases available to FIRA.

❑ Mission and investment policy

Lasting 15 years, FIRA's mission will be to invest in non-family-related agricultural business transfers and start-ups by entrepreneurs under age 40.

— FIRA's investments will consist chiefly of subordinated financings, but also capital stock and full equity lease of land.

Accordingly, FIRA will support the emergence of young agricultural entrepreneurs who will contribute to the development of new production niches and will inject new vitality into Québec agriculture.

The Minister of Agriculture, Fisheries and Food will specify the operational details of the fund at a later date.

2.3.3.2 Croissance Québec Techno

A study by the Fondation de l'entrepreneurship[9] indicates that Quebecers age 18 to 34 create fewer high value-added businesses than other Canadians. Indeed, young Quebecers are more prone to starting a business in low value-added sectors, like the retail trade, than in high value-added sectors life information technology and computer systems.

However, technology companies have a significant impact on Québec's economy. They create high value-added jobs and have a spill-over effect on the economy as a whole. These companies do, however, face stiff global competition.

For our technology companies to grow, a more structured approach is needed and entrepreneurs in possession of a technology company strong potential need training. To achieve this, the 2010-2011 Budget stipulates a new measure, Croissance Québec Techno.

This measure seeks to provide a high level of assistance for rigorously selected entrepreneurs.

— Entrepreneurs who are selected under this measure will attend training sessions on business management provided by the MIT Entrepreneurship Center, in addition to having access to coaching activities designed to help them make strategic choices for the development and rapid growth of their businesses.

— This measure has been tested in a pilot project over the last three years and the results have been conclusive. Entrepreneurs who underwent the training improved their marketing strategy, increased their sales and are in a better position to assess potential new markets.

Over three years, $1.8 million will be needed to implement this measure.

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9 Nathaly RIVEIRAIN et Marie-Ève PROULX, *Entrepreneuriat jeunesse au Québec*, Québec, Fondation de l'entrepreneurship, December 2009.

3. MONTRÉAL, AN ESSENTIAL COMPONENT OF BALANCED DEVELOPMENT

Québec's economy is the sum of the contributions of all its regions. In North America and around the world, competition now occurs between major metropolitan agglomerations. Montréal thus acts as the engine of Québec's economy. Over the next twenty years, Québec will need a strong and dynamic Montréal that positions us internationally in advanced high value-added sectors.

— Montréal has numerous assets that help it attract businesses in advanced sectors, in particular in high technologies such as aerospace, life sciences, environmental technologies, information and communications technologies, photonics and multimedia.

— The government intends to support these strengths by bringing forward new support initiatives that ultimately will benefit all Québec's regions.

3.1 The financial sector: a key role

The financial sector plays a key role in Québec's economic development and in wealth creation. In this regard, better coordination among all players in Montréal's financial community would act as a catalyst to fully realize this potential.

The measures being considered to foster and promote the development of Montréal's financial sector in the 2010-2011 Budget have the following objectives:

— benefit from the repositioning that financial institutions have initiated in response to the crisis – in addition to the usual factors, its safe environment makes Montréal an attractive option for relocating many activities;

— increase joint action and cooperation among public and private stakeholders in the financial community to improve Montréal's competitiveness and promote its strengths and those of its financial sector abroad;

— focus on its advantages and make Montréal a strong regional player by developing niches of excellence that are national and international in reach.

To achieve these objectives, the government will implement two measures:

— support the creation of a round table that brings together players from Montréal's financial community and whose role will be, in particular, to identify projects and practical measures that would benefit the entire sector and contribute to the creation of a cluster;

— overhaul the tax benefits currently granted under the International Financial Centres (IFC) program.

❑ Support for Montréal's financial sector: good for Québec's economy as a whole

The financial sector mobilizes economic resources and plays a key role in wealth creation.

It is innovative and forward-looking. Financial institutions have implemented major information technology (IT) applications before being deployed in all sectors of economic activity.

Though it does not pretend to rival the major international finance centres in their fields of expertise, Montréal does have what is needed to develop its own niches of excellence:

— risk management, derivatives in particular;

— development of the climate market, carbon contracts, a derivatives clearinghouse through the Montréal Exchange;

— development of Fintech, combining finance and IT (risk management software, financing package modeling, online financial simulation, online training, etc.);

— development of the middle and back office sector (nearshoring and offshoring);

An economy based on creativity and innovation is the best way to stand out.

All the initiatives the government will implement for the financial sector will help create and maintain quality jobs in Montréal and elsewhere in Québec.

The Québec government therefore intends to work with the financial sector and ensure that conditions are optimal for its development. The announced measures will have a lasting impact; they will move this sector to the forefront of Québec's economic growth and enable it to fully develop its potential as a wealth creator and engine of development.

❑ The size of Québec's financial sector

According to the International Finance Corporation (IFC), a private sector subsidiary of the World Bank group, the positive impact on an economy of a solid financial sector is broadly acknowledged, whether in terms of business productivity, capital accumulation, growth in savings and investment, or economic growth.

■ A wealth creator

In 2008, according the Institut de la statistique du Québec (ISQ), Québec's financial sector made a substantial contribution to Québec's economy:

— $25.6 billion in operating expenditures;

— $10.9 billion in wages and salaries.

TABLE 61

Economic impact of Québec's financial sector – 2008
(billions of dollars)

	Expenditure	Wages and salaries
Financial intermediation activities	7.7	3.6
Insurance corporations	9.0	3.4
Insurance agencies and brokers	1.3	0.7
Other financial activities	4.9	2.4
Leasing and financial leasing services	2.8	0.8
TOTAL	**25.6**	**10.9**

Source: Institut de la statistique du Québec.

■ A major employer

In 2008, more than 250 000 jobs, salaried or self-employed workers, were directly or indirectly tied to the financial sector, i.e. nearly 8% of employment in Québec.

TABLE 62

Employment in Québec's financial sector – 2008

	Employees	Other	Total
Financial intermediation activities	79 235	2 226	**81 461**
Insurance corporations	66 562	7 424	**73 986**
Insurance agencies and brokers	16 845	3 352	**20 197**
Other financial activities	46 989	7 395	**54 384**
Leasing and financial leasing services	24 369	1 835	**26 204**
TOTAL	**234 000**	**22 232**	**256 232**

Source: Institut de la statistique du Québec.

The sector offers good pay. In 2008, the average weekly remuneration in Québec was $915 for the finance and insurance sector, compared with $750 for all sectors of the economy.

■ A key economic sector

The financial sector plays a key role in the economy of the metropolitan regions of Montréal and Québec City. Within the service industry, it is the second-largest contributor to GDP. In 2007, the GDP of the financial sector in Montréal reached 10.0% of the GDP of the service industry and in Québec City, 12.2%.

TABLE 63

Size of the financial sector in Montréal and Québec City - 2007

(as a % of GDP of the service industry by metropolitan region)

Montréal		Québec City	
Economic activities	**% of GDP**	**Economic activities**	**% of GDP**
Real estate services and corporate management	15.4	Public administration	17.7
Finance, insurance and financial leasing	**10.0**	**Finance, insurance and financial leasing**	**12.2**
Health care and social assistance	9.8	Health care and social assistance	11.3
Wholesale trade	9.0	Real estate services and corporate management	11.3
Retail trade	8.1	Retail trade	8.6

Source: Institut de la statistique du Québec.

The financial sector is one of the largest occupants of retail space. More than 15 head offices of financial institutions are located in the Montréal region while the Québec City region has more than six.

■ Current status: under-developed potential

Despite its current importance in Québec's economy, the potential of Québec's financial sector remains under-developed.

— Québec's financial sector must have access to a sufficient supply of highly qualified employees. For any economic sector that intends to remain competitive, access to a sufficient pool of skilled resources is a major issue.

— Québec's financial sector must remain competitive with the other provinces in Canada, but also with neighbouring American states. To do so, it is vital to maintain highly skilled human resources and attract new ones.

3.2 Support the setting-up of a sector round table

Many financial centres have set up an organization dedicated to the long-term development and growth of the financial sector. Examples include Toronto, which created the Toronto Financial Services Alliance (TFSA) in 2001. The TFSA has just put forward a strategic plan to accelerate the development of Toronto's financial sector. The objective is to move Toronto into the top ten international financial centres.

The Québec government intends to support the efforts of Montréal's financial community to set up a financial sector round table.

— This table will enable greater coordination and cooperation among financial community players to foster the development and promotion of Montréal's financial sector. It will complement the other players in the community.

— Starting in 2010-2011, the Québec government intends to contribute $200 000 annually to get the issue table up and running. This will be in addition to the contributions of players in Montréal's financial sector.

❑ Many advantages for the financial sector

Montréal has a critical mass of players to make this initiative a success. The round table will fulfil its role efficiently:

— by encouraging cooperation and coordination among financial sector players;

— by selecting promising and innovative initiatives and fostering their execution.

Participants will be able to rely on a cooperative-competitive dynamic that, in turn, will be stimulated by high-quality suppliers, customers and competition.

Greater coordination will stimulate innovation, the development of existing businesses and the creation of new ones to serve, from Québec, the local market as well as Canadian, North American and international markets.

- **A leader in the financial sector's development**

This round table will need the leadership of people from Montréal's financial sector who can rally all sector players.

In practical terms, the Québec government will provide these leaders with the resources and tools necessary to set up this table, where representatives of all sector players that want to and have the capability of carrying out projects of benefit to the entire industry will be seated.

3.3 The International Financial Centres program

The IFC program, created in 1986, has helped attract new financial intermediaries to Montréal. The program needs to be updated to adapt it to the new realities of the financial sector.

With this modernization, the government wishes to demonstrate that it firmly intends to make the development of Montréal's financial sector a major part of its economic strategy.

Accordingly, this modernization of the program seeks to harmonize it and make it as competitive as other fiscal measures, notably those for designed for IT.

TABLE 64

The announced changes to the International Financial Centres program – 2010-2011 Budget

Measures	Existing parameters	New parameters
Deduction for an IFC operator	• 75% of income tax • 75% of the tax on capital • 75% of the employer contribution to the HSF	• **Eliminated** • **Eliminated** • **Eliminated**
	Formula for determining the IFC part of a business used in the calculation of the deduction: $\text{Net adjusted income} \times \frac{1}{2} \left[\frac{\text{Gross income from IFC operations}}{\text{Total gross income}} + \frac{\text{Salaries attributable to IFC operations}}{\text{Total salaries}} \right]$	• **Refundable tax credit of 30% on salaries paid to employees of an IFC (max. of $20 000 per year per job)** • **Requirements for new IFCs** – Minimum of six eligible employees per IFC – Partnerships are no longer eligible
Partial tax exemption on income from an IFC for employees	• 37.5% of income, up to a deduction of $50 000	• **Eliminated**
Tax exemption on total income for foreign specialists	• 100% the first two years, 75% the 3rd year, 50% the 4th year and 37.5% the 5th year	• **Maintained**

■ Measures to simplify management and administration of the IFC program

The existing structure of the IFC program mainly favours financial corporations that operate profit centres, to the detriment of cost centres. However, such centres seek to open facilities in Montréal and contribute to the development of new niches.

Accordingly, the government intends to change the IFC program to better respond to the needs of corporations that operate cost centres.

To do so, many parameters of the IFC program will be changed. The changes will have consequences for IFC operators and their employees. A transition period will therefore be allowed to mitigate the financial impacts.

■ Tax benefits granted to corporations

The government is replacing almost all the existing tax benefits with a refundable tax credit calculated on the basis of the salary an IFC operator pays its eligible employees.

More specifically, the value of this tax credit will equal 30% of the eligible salary paid to eligible employees, up to $20 000 per year.

The costs of this measure will be offset by the elimination of the partial exemption an IFC operator can claim regarding income tax, the tax on capital and the employer contribution to the Health Services Fund (HSF).

Accordingly, the day after the 2010-2011 Budget Speech, IFCs may elect to replace their existing tax benefits with a refundable tax credit on salaries paid or temporarily maintain their existing benefits. Those IFCs that elect to maintain their existing benefits will have a grace period of two years, until either December 31, 2012, if the IFC operator is a corporation, or a grace period of three years, until December 31, 2013, if the IFC operator is a partnership, at which dates the benefits allowed under the existing program will come to an end.

■ Impact of the new refundable tax credit on eligible salaries

The new refundable tax credit on eligible salaries will make it easier to calculate the tax benefit.

The tax credit will:

— act directly on the operating costs of IFCs. Studies show that the tax system pertaining to corporations and their operating costs are more important factors in site location decisions than the personal tax system;

— help make more efficient use of the tax benefit, for instance by granting higher salaries to the employees the IFC wants to hire or retain;

— make it possible to easily estimate the value of the tax benefit regarding a given project;

— help simplify the program's administration by eliminating complex calculations, in particular concerning the formula for determining the IFC portion of a business;

— foster job creation;

— settle in-house problems of unfairness and conflicts between eligible and non-eligible employees.

The government is thus responding to requests that a large number of businesses that benefit from the program have made for many years.

Accordingly, each IFC may claim a tax credit equivalent to 30% of the eligible salary paid to each eligible employee, up to a maximum of $20 000 per year each.

— An eligible employee working for an IFC and earning employment income of $20 000 will enable the business to obtain a tax credit of $6 000.

— The $20 000 cap will be reached where an eligible employee's salary is equal to $66 667.

TABLE 65

Refundable tax credit for IFCs
(dollars)

Salary paid		Maximum amount of the tax credit
Greater than	Without exceeding	
0	20 000	6 000
20 000	30 000	9 000
30 000	40 000	12 000
40 000	50 000	15 000
50 000	60 000	18 000
60 000	70 000	20 000
70 000	—	20 000

■ The tax benefits granted to IFC employees other than a foreign specialist

The government will eliminate the tax benefits granted to IFC employees, other than a foreign specialist, to refocus its assistance on businesses.

These employees have benefited from the program's advantages for many years. In all, on December 31, 2009, almost a thousand individuals received an average benefit of roughly $8 000.

The elimination of this benefit will take place gradually for employees who hold a qualification certificate the day of the 2010-2011 Budget Speech. More specifically, a three-year transition period will be allowed for them as of January 2011.

Accordingly, regardless of the election an IFC makes as to the form of its tax assistance, its eligible employees who hold a qualification certificate on the date of the 2010-2011 Budget Speech will be able to claim the following deductions in calculating their taxable income:

— for 2010, no change, deduction of 37.5% of income from an IFC (maximum annual deduction of $50 000);

— for 2011, deduction of 30% of income from an IFC (maximum annual deduction of $40 000);

— for 2012, deduction of 20% of income from an IFC (maximum annual deduction of $26 667);

— for 2013, deduction of 10% of income from an IFC (maximum annual deduction of $13 333).

- **The measure affecting foreign specialists will be maintained**

Foreign specialists working in an IFC will continue to enjoy the same benefits, i.e. a partial tax holiday lasting five years on their world income.

- **IFC Montréal will concentrate its efforts on promoting the program**

A program that is simpler to understand will help IFC Montréal's canvassing efforts. IFC Montréal will be able to test new high-potential markets in the rest of Canada and abroad, in particular corporations operating cost centres: nearshoring, offshoring, disaster recovery sites, etc.

It will also be easier to show heads of IFC operators the many advantages of increasing their activities in Montréal.

3.4 Financial impacts of the changes to the IFC program

Ultimately, i.e. in 2014-2015, the IFC program will cost $22 million, an amount comparable to the cost forecast for 2010-2011. However, the allocation of the assistance will be different:

— Assistance for corporations will increase by almost $6 million in 2014-2015, i.e. 36% more than in 2010-2011.

— For IFC employees, the gradual elimination of the partial income tax exemption will reduce the tax assistance available to them by $6.4 million. Only foreign specialists will continue to receive tax benefits of roughly $0.5 million on an annual basis.

TABLE 66

Financial impacts of the changes to the IFC program
(millions of dollars)

	2010-2011 (Cost before)	2014-2015[1] (Cost after)	Financial impact
Gains for corporations	16.0	21.8	+ 5.8
Reduction of tax benefits for employees	6.9	0.5	– 6.4
NET IMPACT FOR THE GOVERNMENT	**22.9**	**22.3**	**– 0.6**

1 Impacts are calculated over a full year, after the transition period, and on the basis of the existing number of jobs.

3.5 Additional revenues for the metropolitan communities of Montréal and Québec City for public transit

Metropolitan regions have special needs regarding the funding of public transit. The government is prepared to authorize, as of 2010-2011:

— a new increase in the gasoline tax rate in the Montréal region of a maximum of 1.5 cents per litre dedicated to funding public transit if the Communauté métropolitaine de Montréal (CMM) so requests;

— an increase in the gasoline tax rate of a maximum of 1.5 cents per litre dedicated to funding public transit within the territory of the Communauté métropolitaine de Québec (CMQ) if it so requests.

TABLE 67

Revenue expected from an increase in the gasoline tax rate
(millions of dollars)

	0.5 ¢/litre	1 ¢/litre	1.5 ¢/litre
Communauté métropolitaine de Montréal	17.7	35.3	53.0
Communauté métropolitaine de Québec	3.5	7.0	10.5

In the Montréal region, the additional revenue will be paid to the Agence métropolitaine de transport (AMT), as is the case with the increase in the tax of 1.5 cents per litre already collected within its territory. The AMT will distribute these funds to transit organizations according to allocation rules approved by the CMM February 25, 2010.

In the Québec City region, the additional sums will be paid to the Fonds des contributions des automobilistes au transport en commun, and the CMQ will approve the allocation of these sums.

These revenues will then be distributed to the transit organizations concerned. These new revenues, which will raise the contribution of motorists, must not be used to reduce the share of users and municipalities in the funding of public transit.

Funding of public transit

In Québec, public transit is funded by users, municipalities, the government and motorists.

Contribution of partners to the funding of certain public transit corporations in 2008
(per cent)

Transit corporations	Montréal (STM)	Longueuil (RTL)	Laval (STL)	Québec (RTC)
Users	41.5	36.7	26.9	31.7
Municipalities	30.6	44.9	46.2	43.0
Governments	20.0	12.0	20.0	16.0
Motorists	5.0	2.5	2.3	6.0
Other	2.5	3.7	4.3	3.7
Total	**100**	**100**	**100**	**100**

Source: Association du transport urbain du Québec (ATUQ).
Note: The percentages have been rounded off and thus may not add up to 100%.

3.6 Rail link between Montréal-Trudeau airport and downtown Montréal

The link between the airport and downtown is an integral part of the quality of airport reception. Montréal must have an airport link, as many other major cities in the world have. This project was identified as a priority at the 2002 Sommet économique de Montréal.

Accordingly, the government is announcing that $200 million will be allocated to build a rail link to provide high-frequency express service between Montréal-Trudeau airport and downtown.

— This project will improve access to Montréal-Trudeau airport for travellers as well as workers to commute daily to and from the airport.

— The project, to be carried out by Aéroports de Montréal, will help reduce travel time for users and reduce congestion along this major corridor.

4. BUILDING A GREEN ECONOMY

The primary goal of fighting climate change and factoring its environmental impacts into all of our decisions is to build a better world, one in which the risks of runaway development are controlled.

Québec has become a *leader* in the battle to counter climate change, relying on its renewable energy resources to set an example in reducing greenhouse gas (GHG) emissions.

Fighting climate change must be seen as an opportunity to develop and modify our production system: every country in the world is or will be forced to do its share in building a greener economy, and Québec is already ahead in this regard.

❑ A green shift in 2006

In 2006, the government made a genuine green shift in simultaneously releasing its energy strategy, its strategy for fighting climate change and its funding policy for public transit. Significant resources were mobilized to those ends and the results are evident today.

With the 2010-2011 Budget, the government is staying the course by laying new foundations for a greener economy that is more respectful of the environment.

— Three months after the climate change conference in Copenhagen, the Québec government is reporting on the progress made in cutting GHGs and announcing new initiatives in this regard.

— The government is also explaining the actions it is taking to develop the northern regions of Québec, which it wants to use to set an example in sustainable development.

4.1 Fighting climate change

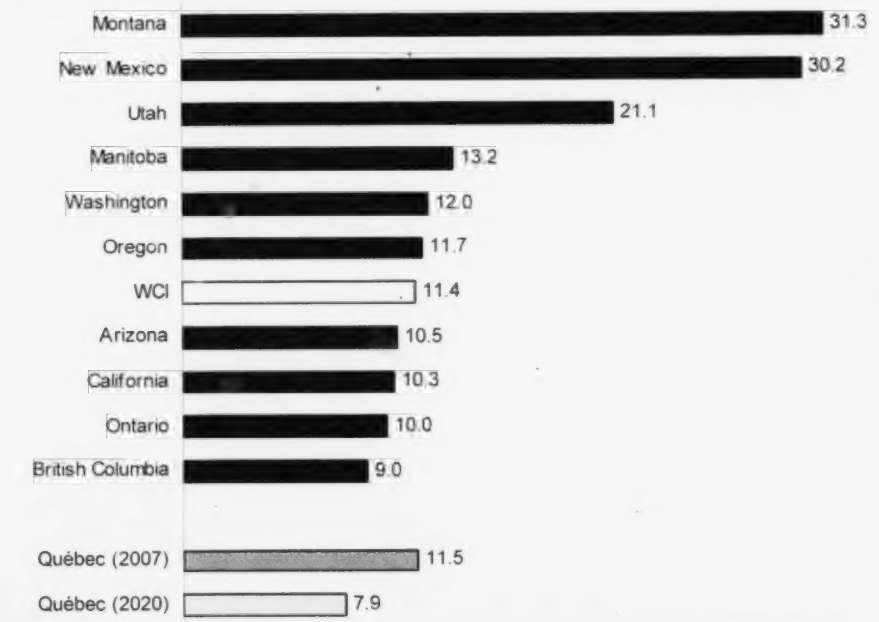
4.1.1 Its emissions reduction target of 20% by 2020 makes Québec a *leader* in tackling climate change

The government has pledged to reduce Québec's GHG emissions to 20% below the 1990 level by 2020.

By mobilizing the efforts needed to achieve that target, Québec will maintain its position as a North American leader in fighting climate change. In 2020, Québec's GHG emissions should stand at just under 8 tonnes per person, compared with 10 tonnes in California and Ontario, and just over 31 tonnes in Montana.

CHART 33

Projected GHG emissions in 2020, Québec and WCI[1]
(tonnes CO_2 equivalent per person)



1 Western Climate Initiative.
Source: Ministère du Développement durable, de l'Environnement et des Parcs.

❑ Background to the Copenhagen climate conference

In April 2008, Québec joined the Western Climate Initiative (WCI),[10] a collaboration of several US states and Canadian provinces whose goal is to find collective ways to tackle climate change.

In fall 2009, the Québec government held a public consultation to determine the greenhouse gas emissions reduction target it should adopt for 2020.

— Considering the opinions expressed during that consultation, the Québec government pledged to reduce Québec's GHG emissions 20% below the 1990 level by 2020.

— Québec announced its emissions reduction target on November 23, 2009, a few weeks ahead of the Copenhagen climate conference, thereby demonstrating its desire to contribute to the international effort to combat climate change.

The ambitious target set by Québec will accelerate the greening of its economy.

To deliver on its promise, the government will be unveiling a new action plan on climate change for 2013-2020 that will lay the foundations for a green and prosperous economy in 2020.

The government is taking the first steps towards the climate change action plan for 2013-2020 through its 2010-2011 Budget, which provides for investments of $72 million over three years to combat climate change.

The new action plan will be unveiled by the Minister of Sustainable Development, Environment and Parks.

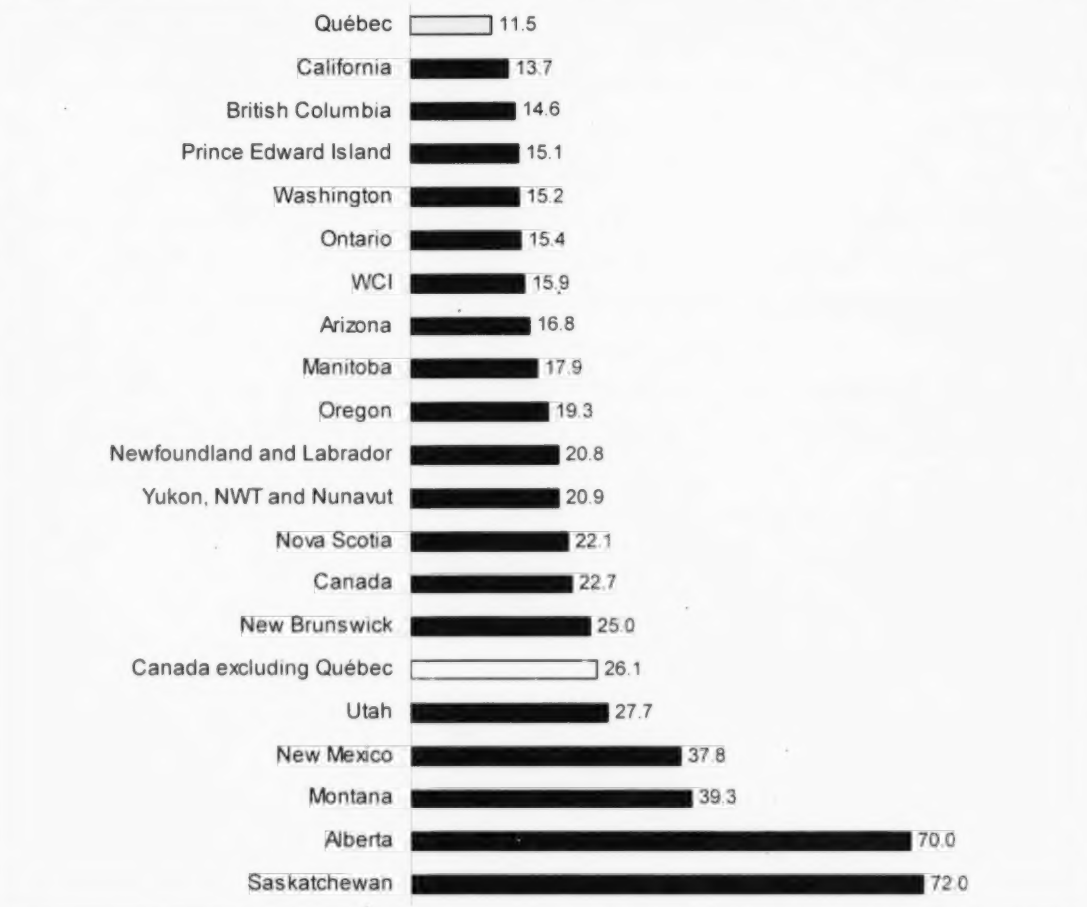
10 The Western Climate Initiative (WCI) was created in February 2007 by the governors of Arizona, California, New Mexico, Oregon and Washington. The WCI has 11 partners including British Columbia, Manitoba, Québec and Ontario.

Québec: A Leader in the Fight Against Climate Change

Québec boasts one of the best performances among North American jurisdictions in reducing GHG emissions. In 2007, it emitted 11.5 tonnes of GHG per person, compared with the Canadian average, not including Québec, of 26.1 tonnes per person.

This strong performance is primarily attributable to Québec's investment in renewable and clean energy sources, especially hydroelectricity and wind energy. In fact, electricity generation, 95% of which is from a renewable source, accounts for just 1.2% of Québec's GHG emissions.

Per-capita GHG emissions in Canada (2007) and the WCI's US member states (2006)
(tonnes CO_2 equivalent per person)



Source: Ministère du Développement durable, de l'Environnement et des Parcs.

4.1.1.2 A GHG reduction target of 20% below the 1990 level by 2020

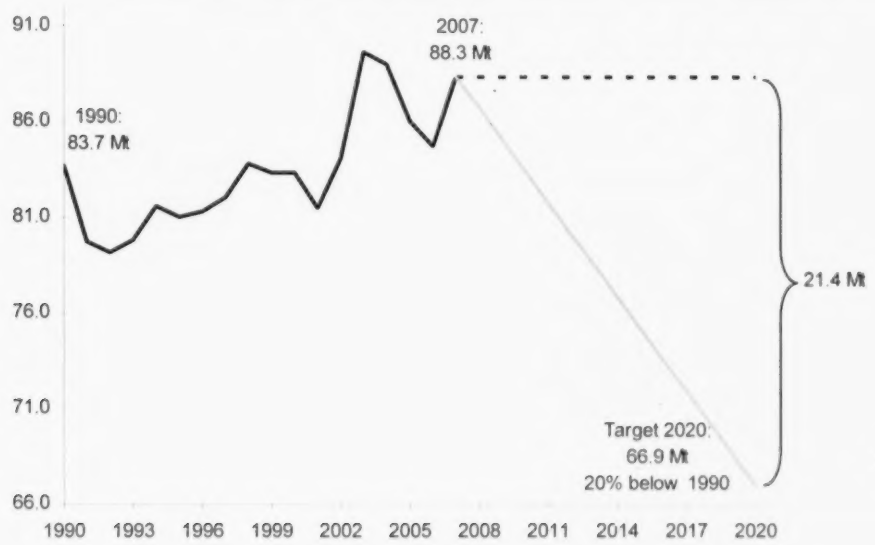
Cutting Québec's GHG emissions 20% below the 1990 level will be a challenge, and one that cannot be achieved without considerable effort by all.

— This target means an emissions reduction of 16.8 megatonnes (Mt) in 2020 compared with 1990.

— By way of illustration, compared with the 2007 level,[11] a 20% reduction in GHG emissions is equivalent to removing 5 million cars from Québec's roads.

CHART 34

GHG emissions trends in Québec and reduction target for 2020
(million tonnes CO_2 equivalent)



Source: Ministère du Développement durable, de l'Environnement et des Parcs.

11 2007 is the last emissions inventory available for Québec.

4.1.2 Investments and incentive measures to cut GHG emissions

Tackling climate change requires major investments and a series of incentive measures, notably to:

— further develop public transit in Québec;

— foster intermodal freight transportation;

— increase use of cleaner energy sources;

— foster action in the areas of energy efficiency and green technology development.

❑ Further development of public transit in Québec

The transportation sector alone accounts for 40% of Québec's total GHG emissions. Consequently, achieving the reduction target in 2020 necessarily requires devising alternatives to driving alone.

Developing public transit even further involves:

— continuing to modernize infrastructure and public transit facilities;

— improving the service supply and efficiency of public transit systems;

— ensuring long-term financing for public transit services.

Importance of public transit in fighting climate change

Developing public transit is vital to fighting climate change because it offers drivers more alternatives to driving alone and reduces fuel consumption.

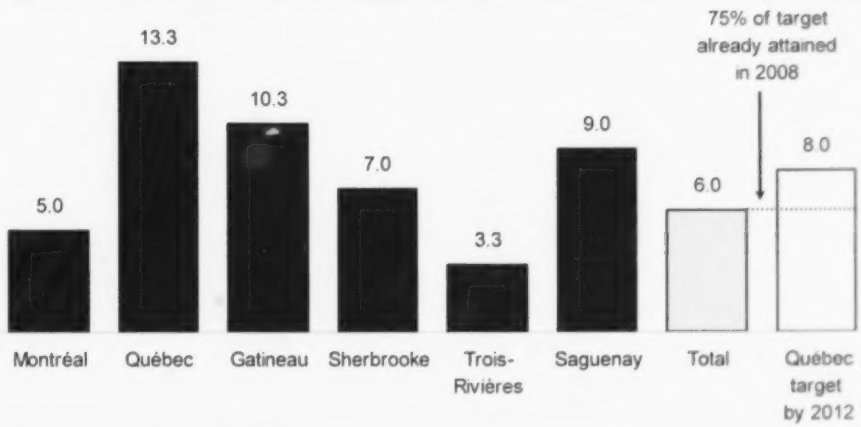
Currently, Quebecers take over 500 million trips on public transit per year. Approximately 450 000 people, or roughly 13% of all employed Quebecers, take public transit to work every day.

The Québec Public Transit Policy sets a target of raising the number of public transit trips to 550 million by 2012, an 8% increase from 2006. Québec is well on its way to achieving that target. Between 2006 and 2008, ridership increased by 6% in the principal municipalities of Québec, representing nearly 75% of the target.

This increase in transit ridership cuts GHG emissions and thereby contributes to the achievement of the reduction target announced by the government. It is estimated that every 1% increase in transit ridership removes the equivalent of roughly 2 000 cars from Québec's roads, a reduction of 8 000 tonnes of GHG annually.

The new investments that will be announced will lead to further progress and enable Québec to tap the huge potential for GHG reduction in this sector.

Increase in public transit ridership in the principal municipalities of Québec between 2006 and 2008
(per cent)



Sources: Association du transport urbain du Québec and data compiled by the Ministère des Finances du Québec.

❑ Fostering intermodal freight transportation

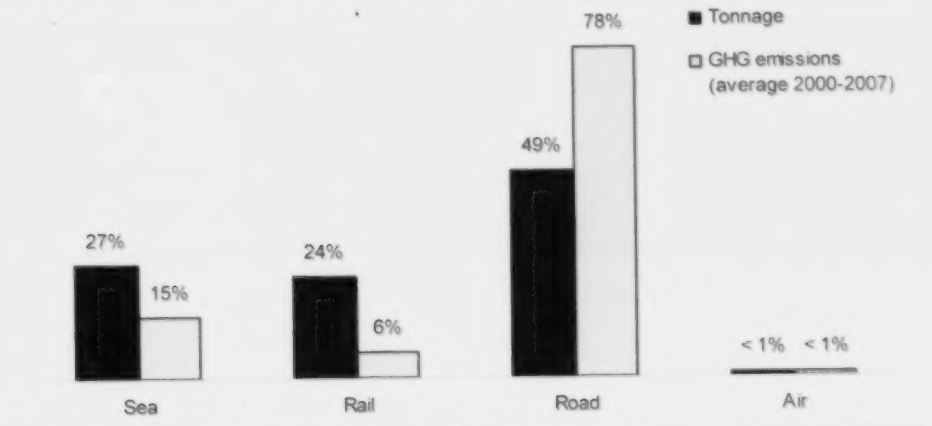
Given the amount of trade in Québec, an efficient transport network for moving goods is crucial to developing Québec's economy. Currently, an estimated 49% of the total volume of transported goods is moved by road, compared with 27% moved by sea and 24% moved by rail.

However, for an equivalent load, road transportation emits more GHGs than marine or rail transportation. In fact, whereas road transportation accounts for nearly half the tonnage moved in Québec, it accounts for approximately 78% of GHG emissions from freight transportation.

Fostering the use of modes of transport that emit less GHG requires investments to maximize freight transportation by rail and sea and ensure better complementarity between road, rail and sea.

CHART 35

Breakdown of tonnage moved and GHG emissions in Québec by mode of transport



Sources: Ministère des Transports du Québec and Natural Resources Canada.

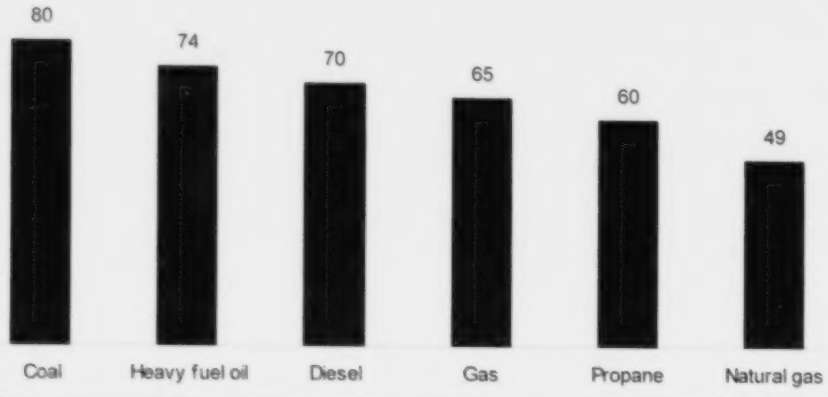
❑ Making cleaner energy sources more accessible

The use of fossil fuels in producing industrial goods and heating commercial and institutional buildings is a large source of GHG emissions. However, for technical reasons, it is often impossible for businesses to use electricity instead.

To step up the efforts made in particular to reduce the consumption of heavy fuel oil, the government will, for example, allow more businesses and municipalities in Québec to use less-polluting energy sources, such as natural gas and biogas or biofuel.

CHART 36

GHG emissions from burning different types of fuel and fossil fuels
(kg CO_2 per GJ)



Sources: Ministère des Finances du Québec and Ministère du Développement durable, de l'Environnement et des Parcs.

❑ Improving energy efficiency and fostering green technology development

To cut Québec's GHG emissions, initiatives will also be taken to:

— improve the energy efficiency of buildings;

— accelerate development of green technologies, notably development of the electric vehicle industry in Québec;

— facilitate the transfer of green technologies to developing countries to reduce GHG emissions abroad;

— encourage the employment of new, less-polluting technologies.

4.1.3 New measures to combat climate change

The 2010-2011 Budget provides for investments of $72 million over three years.

These investments will make it possible to:

— facilitate development of an electric vehicle industry, notably through the Québec design of an electric bus;

— foster a green shift in Québec's heavy vehicle fleet by:

  — raising the capital cost allowance rate applicable to trucks and tractors designed for hauling freight from 40% to 60%,

  — by allowing an additional deduction of 85% of the amount deducted on account of capital cost allowance in respect of a truck or tractors designed for hauling freight and that run on liquefied natural gas vehicles;

— extend and improve the ClimatSol program;

— encourage the marketing of products that have obtained carbon footprint certification;

— finance the creation of a data bank on product life cycles.

TABLE 68

Cost to the government of the measures to fight climate change

(millions of dollars)

	2010-2011	2011-2012	2012-2013	Total
Industrial policy for the development of an electric vehicle sector[1]	—	—	—	—
– Development of an electric bus in Québec	8.0	10.0	12.0	**30.0**
Green shift in Québec's heavy vehicle fleet				
– Increase from 40% to 60% in the capital cost allowance rate applicable to trucks and tractors designed for hauling freight	1.7	3.1	3.7	**8.5**
– Additional deduction of 85% of the amount deducted on account of capital cost allowance for LNG vehicles used for hauling freight	0.1	0.6	1.2	**1.9**
Extension and improvement of the ClimatSol program	2.0	2.0	2.0	**6.0**
Encouraging of the marketing of carbon-certified products	3.0	8.0	13.0	**24.0**
Funding of efforts to create a data bank on product life cycles	0.5	0.5	0.5	**1.5**
Accelerated capital cost allowance on account of clean energy production	—	—	0.1	**0.1**
TOTAL	**15.3**	**24.2**	**32.5**	**72.0**

1 The cost of this policy will be financed by the Green Fund and from the budgets of the government departments concerned.

❑ Industrial policy for the development of an electric vehicle sector

The government's commitments to reduce GHG emissions represent a perfect business opportunity, such developing a hybrid and electric vehicle sector. Road transportation accounts for 32.5% of Québec's GHG emissions, making electric vehicles very worthwhile.

Given that Québec produces 97% of its electricity from renewable resources, it is an ideal place for the development of electric technologies.

■ An action plan

The government intends to continue the efforts initiated to get more electric vehicles in Québec. To that end, the 2010-2011 Budget provides for the introduction, starting this year, of government action to:

— create the necessary conditions for building up Québec's electric vehicle fleet;

— spur and support demand for electric vehicles.

The government also intends to count on Québec companies with existing expertise in electric vehicles to position itself in this growing niche.

It will therefore be unveiling an action plan on electric vehicles that will bet on Québec's assets to make it a world leader in this sector.

The action plan on electric vehicles will identify initiatives with the most promise and bank on Québec niches of excellence.

1) Assembly of hybrid and electric vehicles

Six businesses in Québec specialize in the assembly of city buses and special vehicles (delivery trucks, low-speed vehicles, etc.). Some of them are well-known players that could contribute to the development of the electric vehicle industry in Québec. One such business is Paccar and Novabus.

2) ***Development of a performance battery***

Two businesses in Québec already make performance batteries and battery material. Bathium Canada Inc. manufactures Lithium Metal Polymer batteries for the France-based Bolloré Group, of which it is a subsidiary. Phostech Lithium is world renowned for producing lithium metal phosphate, a highly promising input for lithium batteries, which are likely to be used in future electric vehicles and reduce the cost of a battery.

3) ***Electric motors***

Hydro-Québec plays a leading role in this area through its subsidiary TM4, renowned for its development of electric motor-wheels. India's Tata Motors has selected TM4 to supply Motive electric engines for some 100 electric cars to be tested in Norway.

4) ***Battery recharging facilities***

Research conducted at Université Laval is leading to the development of a rapid charging station. Marketing of this technology could be encouraged.

5) ***Manufacturing of light material to reduce vehicle weight and increase vehicle autonomy***

Québec has an international reputation for local manufacturing of light parts and systems made from material such as aluminium, plastic, composites and rubber. Some of these companies already ship parts and systems to electric vehicle manufacturers. Spectra Premium, for example, will supply the gas tanks for the GM Volt.

6) ***Research and innovation in the area of electric vehicles***

Some 20 research centres in Québec specialize in electric vehicles, including the Insitut de recherche d'Hydro-Québec (IREQ), the Université de Montréal and the Institut de transport avancé du Québec (ITAQ).

The details of the action plan on electric vehicles will be announced by the Minister of Natural Resources and Wildlife, the Minister of Economic Development, Innovation and Export Trade and the Minister of Sustainable Development, Environment and Parks by fall 2010. The action plan, except for the project to develop an electric bus, will be financed partly by the Green Fund and partly from the budgets of the government departments concerned.

■ Development of an electric bus in Québec

One of the cornerstones of the action plan on electric vehicles will be a catalyst project to develop an electric bus based on a partnership of Québec industry experts.

TABLE 69

Development of an electric bus

Private partners	Sectors of activity
NovaBus	Manufacture of city buses
Alcoa	Aluminium structures
TM4	Electric engines
Giro	Intelligent transportation systems
Sigma Industries	Aluminium and composite products
Bathium	Performance battery

This project will tap Québec's industrial strengths, namely, the manufacture of city buses, the manufacture of aluminium and composite products, electric engines, intelligent transportation systems and performance batteries. The project will support: the design, development and demonstration of a Québec-made electric bus that could make its mark on the promising electric vehicle market.

The goal is to design, in Québec and within the next three years, a prototype for a fully electric city bus made from light material incorporating cutting-edge technologies developed by Québec companies.

The development of the prototype electric bus will be equally funded by the Québec government and companies participating in the project, or $30 million each.

The details of the electric bus project will be announced at a later date by the Minister of Economic Development, Innovation and Export Trade.

❑ Fostering a green shift in the heavy vehicle fleet

Québec's heavy vehicle fleet for freight transportation consists of nearly 40 000 trucks and tractors.

As of 2010, all heavy road transport vehicles made for use in the United States and Canada must be equipped with engines that meet the new pollution emission standards set by the US Environmental Protection Agency.

This new generation of engines will significantly reduce emissions of pollutants responsible, in particular, for urban smog. However, it will also cause the price of new vehicles to go up.

Furthermore, alternative technologies to diesel engines, such as liquefied natural gas engines, are already used elsewhere in the world to cut GHG emissions. However, these technologies are not employed much in Québec.

In order for Québec to achieve its GHG emissions reduction target, the government must take action in the road transportation sector.

■ Increase in the capital cost allowance rate applicable to trucks or tractors designed for hauling freight, from 40% to 60%

To compensate for the higher costs of new-generation engines and foster a "green shift" in the heavy road transport vehicle fleet, the 2010-2011 Budget is raising the capital cost allowance rate applicable to these vehicles from 40% to 60% for new vehicles purchased after the day of the Budget Speech.

As a result of this measure, the Québec and US tax systems will be similar as regards the depreciation of heavy vehicles designed for hauling freight.

An increase in the rate enables accelerated capital cost allowance, thereby freeing up cash faster, improving the earning power of businesses in the short term and facilitating business investment.

- **Additional deduction of 85% of the amount deducted on account of capital cost allowance in respect of a truck or tractor designed for hauling freight and that runs on liquefied natural gas**

The purchase of a heavy road transport vehicle fuelled by liquefied natural gas (LNG) involves an additional investment of $100 000 compared to a standard diesel-powered vehicle. However, LNG costs around 25% less than diesel fuel, thereby delivering savings on operating costs.

In addition, LNG engines enable 20%-25% GHG reductions relative to base diesel engines. LNG technology is currently non-existent in Québec, but is used elsewhere in the world to cut GHG emissions from the trucking industry.

To foster employment of this technology in Québec, the following measures apply to heavy road transport vehicles fuelled by LNG:

— an increase in the capital cost allowance rate from 40% to 60%;

— an additional deduction of 85% of the capital cost allowance deduction claimed in the year for vehicles purchased before 2016.

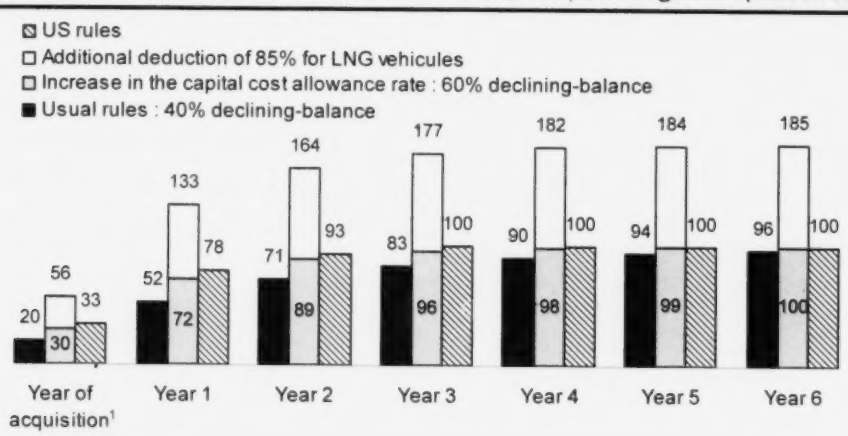
This measure will enable a company that purchases a heavy road transport vehicle with an LGN engine to claim cumulative capital cost allowance deductions after three years of 164% of the acquisition cost of the vehicle, compared with 71% under the current rule.

This initiative will cut GHG emissions by more than 6 000 tonnes over six years, the amount of GHG emitted by over 1 600 cars.[12]

12 Assumption based on an increase of 50 LNG heavy vehicles per year over six years.

CHART 37

Impact of incentive measures for greening Québec's heavy vehicle fleet
(accumulated depreciation and additional deduction, as a percentage of acquisition cost)



1 In the year of acquisition, purchases are subject to the half-year rule.

TABLE 70

Parameters of incentive measures for greening Québec's heavy vehicle fleet
(per cent)

	Diesel vehicle	LNG vehicle
Rate of capital cost allowance deduction		
- Current rule	40	40
- 2010-2011 Budget measure	60	60
Additional deduction[1]	—	85

1 The deduction will apply to new vehicles purchased after the day of the 2010-2011 Budget Speech, but before January 1, 2016.

These measures will facilitate the purchase of approximately 4 000 new cleaner and greener heavy road transport vehicles each year, representing investments of over $400 million.

The *Route bleue*

Gaz Métro has plans to soon construct two liquefied natural gas (LNG) terminals along the Québec-Ontario trucking corridor under the *Route bleue* project. These investments will facilitate the introduction of technology used worldwide to reduce greenhouse gas (GHG) emissions from the trucking industry.

The specific goal of the *Route bleue* project is to replace the use of diesel fuel in heavy road transport vehicles by the use of a less-polluting fuel, namely, LNG. The result will be a 20%-25% reduction in GHG emissions relative to emissions from diesel-powered vehicles.

This project is part of the Québec government's Policy on Road Freight Transport 2009-2014, which affirms that polluting emissions produced by road freight transport cannot remain at current levels.

The additional deduction of 85% for LNG-powered heavy road transport vehicles is the first step in this project. This initiative will enable implementation of the *Route bleue* project and involve the trucking industry in reducing Québec's GHG emissions to 20% below the 1990 level by 2020.

❑ Extending and improving the ClimatSol program

The Ministère du Développement durable, de l'Environnement et des Parcs introduced the ClimatSol program in 2007 to help municipalities clean up contaminated sites located in their territory.

The primary goal of the ClimatSol program is to create conditions conducive to GHG emissions reduction or prevention and energy efficiency of buildings in contaminated site development projects. This program thus contributes to the fight against climate change.

— The program was slated to end on March 31, 2010.

— The program had an initial budget of $50 million. To date, $28 million in financial assistance has been provided to the municipalities, with the result that $22 million is still available, including $13 million for Ville de Montréal and $9 million for the other municipalities of Québec.

— Ville de Québec has used the entire $5 million allocated to it.

Considering that it is worthwhile to continue supporting the municipalities' decontamination efforts, the Québec government has decided to extend the ClimatSol program for five years, until March 31, 2015.

This extension, along with the easing of program requirements, will enable Ville de Montréal to carry out four priority projects to strengthen its urban fabric:

— the Brenntag and Canada Malting site in the borough of Sud-Ouest;

— the Namur-Jean-Talon sector in the borough of Côte-des-Neiges—Notre-Dame-de-Grâce;

— the Dominion Bridge site in the borough of Lachine;

— the Albert-Hudon site in the borough of Montréal-Nord.

The government will also offer Ville de Québec $10 million in additional funding to help it complete two projects to consolidate its downtown area: the Pointe-aux-Lièvres site and the Estimauville site.

❑ Financing the creation of a data bank on product life cycles

To equip Québec with an internationally recognized environmental assessment tool, the 2010-2011 Budget provides for a $1.5 million investment for the creation of a Québec data bank on life cycle inventories.

This investment will make it possible to:

— acquire the world's largest data bank on life cycle analysis and adapt it to the Québec context;

— expand the new data bank to include sectors that are important to Québec.

The new Québec data bank will make it possible to produce and quantify the complete ecological balance sheet for a product, a technology or a service, from "cradle to grave", i.e. from extraction of raw materials to end-of-life processing. The data bank will take into account some 15 indicators, including GHG emissions.

For example, this tool will make it possible to measure the net environmental gain from using one technology over another or determine which product has the best environmental profile.

Creation of the data bank will be entrusted to the Interuniversity Research Centre for the Life Cycle of Products, Processes and Services (CIRAIG), founded in 2001 under the leadership of École polytechnique de Montréal, in collaboration with Université de Montréal and École des hautes études commerciales (HEC) Montréal.

❑ Encouraging the marketing of products that have obtained carbon footprint certification

Various actions will be taken to achieve the goal of a 20% reduction in GHG emissions by 2020. To ensure their success and to measure the progress accomplished, it is essential to quantify GHG emissions.

One internationally accepted method, especially in Europe, consists in determining the carbon content of a product. Companies calculate the carbon footprint of their products and disclose it in a label affixed to the products.

Carbon footprint labels tell consumers how much carbon was emitted in making a product.

"Carbon footprint" concept

The term "carbon footprint" the total amount of GHGs emitted through a given economic activity. GHGs are measured in kilograms of CO_2 equivalent. The carbon footprint is the measure of how much CO_2 is emitted directly or indirectly.

- Direct emissions are the result of operations controlled by the business.
- Indirect emissions are the result of everything upstream (suppliers) or downstream (customers) of the business' operations.

The carbon footprint is the measure of the total CO_2 emissions from:

- a business, also referred to as the business's carbon budget;
- a product, i.e. an assessment of all of the environmental impacts that the product will have throughout its life cycle, from "cradle to grave".

For example, a 1.9-litre container of orange juice has an estimated carbon footprint of 1.7 kg of CO_2 compared with 350 kg of CO_2 for an office computer with an LCD monitor.

France and the United Kingdom have taken a number of steps to incorporate the carbon footprint concept into business operations and consumer habits.

Experience in France and in the United Kingdom

France created an agency to enable companies to incorporate the concept of carbon footprint into their operations.

- The Agence de l'Environnement et de la Maîtrise de l'Énergie (ADEME) is a public body under the joint tutelage of the Ministère de l'Écologie, de l'Énergie, du Développement durable et de la Mer and the Ministère de l'Enseignement supérieur et de la Recherche.
- The ADEME is involved in the implementation of public policies relating to the environment, energy, sustainable development and carbon labelling.
- It administers various programs, including one that reimburses 50% of the costs incurred by a company to obtain green certification.

The United Kingdom created the Carbon Trust, a non-for-profit company that provides specialist support to businesses to help cut their carbon emissions and adopt low-carbon technologies.

- The Carbon Trust can identify and measure CO_2 emissions across the production chain. It developed the Carbon Reduction Label to:

  influence consumer choice by labelling products that generate fewer carbon emissions;

  improve the environmental performance of companies.

■ New program for the marketing of products carrying a carbon footprint label

To raise awareness among the population and businesses of the importance of limiting CO_2 emissions produced by business activities, the government is introducing a new program to support Québec SMEs that want to market carbon-labelled products. Eligible products must be made in Québec and be innovative in some regard.

— The government assistance takes the form of a non-refundable contribution to the marketing expenses for a product that already has a carbon footprint label.

— The assistance provided is equivalent to 50% of eligible expenses, such as promotion and advertising, up to $150 000 per business.

— This will facilitate the marketing of these products, especially since Québec businesses have a smaller carbon footprint considering that Québec electricity is an input with a minor environmental impact in terms of CO_2 emissions.

The contribution will not apply to certification expenses incurred by an SME to calculate a product's carbon footprint. Carbon certification can be obtained from a certification body, of which there are currently around ten in Québec.

The new program will be under the responsibility of the Ministère du Développement économique, de l'Innovation et de l'Exportation.

— The department must management this program so as to ensure that products developed by Québec SMEs have been certified in accordance with the principles, requirements and guidelines specified in ISO 14040 and ISO 14044[13].

— The above standards are designed for people who are responsible for or oversee the process of identifying, quantifying and verifying GHG emissions generated by products.

A budget of $24 million over the next three years will be allocated to the Ministère du Développement économique, de l'Innovation et de l'Exportation to support this initiative for facilitating the export of Québec products.

13 Based in Geneva, Switzerland, the International Organization for Standardization (ISO) is a network of 157 countries that develops worldwide industrial and commercial standards. It has a current portfolio of over 17 000 standards dealing with for such things as quality management and assurance (ISO 9000 series), environmental management (ISO 14000 series) and information security (ISO 27000 series).

4.2 Initiatives to deploy the Northern Plan

The government is committed to developing the vast potential of northern Québec to make it a new economic space and an example of sustainable development.

Northern Québec is rich in natural resources and areas that lend themselves to tourism activities. These assets hold huge development potential, more of which must be tapped in the interest of both the communities in this vast territory as well as Quebecers as a whole.

❑ The Northern Plan process

The Northern Plan process, initiated in November 2009, will enable the government to carry out this commitment.

— The goal of this process is to devise a sustainable development plan the incorporates the development of energy, mining, forest, biofood and tourism resources as well as transportation.

— The process will also promote the development of northern Québec's wildlife resources while protecting the environment and conserving the biodiversity of this vast territory that makes up 72% of Québec's total land base.

This long-term development project for northern Québec will entail numerous courses of action identified during collaborative work with First Nations, the Inuit and local communities. As promised by the government, industrial activity of any kind will be prohibited in 50% of the area covered by the Northern Plan. The various courses of action will be identified before fall 2010.

The process will be coordinated by the Ministère des Ressources naturelles et de la Faune, with input from numerous local partners and government representatives. The partners' discussion table met for the first time in January of this year to initiate discussions.

The government is pursuing development efforts in northern Québec in conjunction with the Northern Plan. The government's 2009-2010 Budget announced several measures to support the development of northern Quebec. Those measures will:

— protect the environment and promote northern Québec's heritage;

— improve infrastructure in and facilitate access to the area.

The 2010-2011 Budget includes additional measures to support the development of this new economic space. To that end, $57 million over three years will be allocated to the development of northern Québec.

TABLE 71

Cost of the measures to deploy the Northern Plan
(millions of dollars)

	2010-2011	2011-2012	2012-2013	Total
Support for the Northern Plan process				
- Coordination of the process	2.5	2.5	2.5	**7.5**
- Enhancement of knowledge of northern geography	1.5	1.5	1.5	**4.5**
- Fonds pour la réalisation d'initiatives régionales et locales	2.0	2.0	2.0	**6.0**
Reforestation of Northern Québec				
- Production of seedlings	2.0	4.0	4.0	**10.0**
- Silvicultural work north of the 49th parallel	8.0	—	—	**8.0**
Support for tourism development in Northern Québec	2.0	2.0	2.0	**6.0**
Continuation of the creation of five Québec national parks	2.5	2.5	2.5	**7.5**
Enhancement of knowledge of Northern Québec's environment and biology	2.5	2.5	2.5	**7.5**
TOTAL	**23.0**	**17.0**	**17.0**	**57.0**

4.2.1 Support for the Northern Plan process

❑ Coordination of the process

To ensure the success of the Northern Plan approach, the Ministère des Ressources naturelles et de la Faune will coordinate the work of the partners and various government representatives concerned. In addition, it will ensure follow-up of the work of the partners' discussion tables, whose mandate is to advise the Minister responsible for the Northern Plan on the strategic choices that must be made throughout the preparation and implementation of this plan for the sustainable development of Northern Québec.

A budget of $2.5 million per year over the next three years will be allocated to continue the Northern Plan process. The process should result in an initial action plan for the development of Northern Québec, in fall 2010.

❑ Enhancement of knowledge of northern geography

The government will also devote $4.5 million over three years to the improvement of high-resolution satellite images of northern regions and the preparation of topographical maps (lakes, rivers, terrain, etc.) of these areas.

This work will include mapping of infrastructures and buildings of northern localities for the purposes of public safety and local management.

❑ Creation of the Fonds pour la réalisation d'initiatives régionales et locales

A fund will be created to support regional and local projects that require special assistance and do not qualify for assistance under existing programs.

The financial assistance will take the form of a grant the maximum amount of which will be determined according to the contribution from the promoter, other Québec government departments and organizations and the federal government.

The Fonds pour la réalisation d'initiatives régionales et locales will have a $6-million budget over the next three years and will be used to implement initiatives in the territory covered by the Northern Plan. For example, it could fund a collaborative project with the Kativik Regional Government aimed at providing high-speed Internet service to the residents of Nunavik.

4.2.2 Reforestation of Northern Québec

Northern Québec will have a role to play in achieving the 20% GHG reduction target. In fact, the government has pledged to increase the forest cover in Northern Québec by setting itself the objective of planting 100 million trees over the next few years.

The 2010-2011 Budget therefore continues the efforts initiated in the last budget and allocates an additional $10 million over three years to finance the production of seedlings for planting in the area covered by the Northern Plan. In addition, the amount of $8 million in 2010-2011 is being granted for silvicultural work north of the 49th parallel under the Silvicultural Investment Program.

These measures will help increase the forested area in parts of the territory that are wild land or have been severely affected by forest fires. Once mature, these new forests will capture thousands of tonnes of GHGs a year, thereby benefiting future generations.

4.2.3 Support for tourism development in Northern Québec

The wilderness areas, spectacular landscape, and special fauna and flora of Northern Québec offer promising tourism opportunities.

In fact, the territory of Northern Québec is well-suited to the development of tourism focusing on nature, culture and local products, such as hunting, fishing, ecotourism, adventure tourism and Aboriginal and cultural tourism.

As well, northern tourism is a growing sector. However, investments need to be made to improve the quality of the current tourism supply in Northern Québec in order to be competitive and meet the demands of international travellers. Improving the quality of this tourism supply is therefore a priority for the government.

The tourism industry generates significant economic spinoffs. Developing this industry could therefore help create wealth and vibrant economies in the communities of Northern Québec. Tourism is thus a major development vector for these communities.

Importance of tourism in Québec: highlights
The tourism industry provides a major source of new money into Québec.
– International travellers inject $2.3 billion a year into the Québec economy.
– Canadian tourists inject $1 billion into the Québec economy.
– It is estimated that $100 spent by a foreign tourist adds $73 of GDP to Québec's economy.
The tourism industry is also a major source of jobs.
– It creates 134 600 directs jobs and 64 600 indirect jobs annually in Québec.
– These jobs are concentrated in labour-intensive sectors, such as food and lodging, and retail trade.
The regions benefit from these spinoffs, with 60% of tourism jobs.
– 60% of direct tourism jobs are outside the Québec and Montréal tourist regions.

Source: Ministère du Tourisme du Québec.

As part of the Northern Plan, the government is announcing financial assistance that will help make the territory north of the 49th a new, world-class tourism destination.

To that end, the 2010-2011 Budget is injecting $6 million over three years to support projects with a structuring impact in order to improve the tourism supply in the territory covered by the Northern Plan. This amount will make it possible to support projects designed to:

— enhance accommodation infrastructures by consolidating existing facilities and creating new ones adapted to the northern regions, such as small and large lodging facilities or rustic cabins or huts in wilderness areas;

— improve the outfitting sector, notably infrastructure and facilities aimed at product diversification with a view to attracting new clienteles and extending the operating season;

— develop infrastructure, reception buildings and attractions for tourists and cruise-takers in northern regions.

Since the ultimate goal is the emergence of a new travel destination grounded in dynamic local and regional communities, projects under the plan will be selected in step with and taking into account the features of the areas concerned. This will be done in close cooperation with the northern communities and in keeping with the principles of sustainable development.

The financial assistance will lay the groundwork for genuine development of sustainable tourism in Northern Québec. Projects will be funded in partnership with the federal government and the community, taking into account local and regional characteristics.

A contribution of $6 million from the federal government and $3 million from the communities in the territory covered by the Northern Plan would create a leverage effect and accelerate development of this promising sector for the communities living in this territory.

4.2.4 Continuation of the creation of five Québec national parks

In the 2008-2009 Budget, the government announced an investment of $26 million over three years to create parks in Northern Québec. In the 2009-2010 Budget, it announced an additional investment of $6 million in 2011-2012 toward that end.

These parks will host exceptional natural habitats and will be among the largest in Québec's network of national parks. Their creation will contribute significantly to the growth of ecotourism and adventure tourism in Northern Québec and preserve the territory for future generations.

The 2010-2011 Budget announces additional funding of $7.5 million over three years to continue the work necessary for the creation and development of Québec's national parks.

These funds will be applied notably to carry out various work such as field work to gain more knowledge about the fauna and flora in the proposed park areas. The funds will also be used to define the park boundaries, prepare zoning and development plans for the parks and conduct environmental and social impact studies.

The creation of the parks will also help the government reach its objective of excluding 50% of the territory covered by the Northern Plan from all industrial activity.

4.2.5 Enhancement of environmental and biological knowledge of the Northern Plan territory

The success of the Northern Plan approach must be based on a sound knowledge of the biodiversity and the ecosystems in the North. Improved knowledge in these areas will result in better planning for the development of the Northern Plan territory.

To gain more knowledge of the North, the government will allocate $7.5 million over the next three years for the development and implementation of a portal dedicated to the territory. The portal will contain all information on the resources, ecosystems and biodiversity of Northern Québec.

4.3 Temporary assistance for wind-power projects

The financial crisis has had a substantial impact on the liquidities available on financial markets. This could affect the completion and the operation of certain wind farm projects scheduled to be established as a result of calls for tenders by Hydro-Québec and could jeopardize attainment of the goal of 4 000 MW under the Québec Energy Strategy 2006-2015.

To offset certain effects of the financial crisis, the government is announcing the creation of a temporary assistance program for promoters of wind-power parks scheduled to be built from 2010 to 2012. To qualify for assistance, promoters must provide the government with sufficient guarantees, particularly through their parent company or by means of security furnished by established institutions, so as to minimize the costs of government intervention.

To that end, $15 million in additional funding in 2010-2011 and 2011-2012 will be granted to the Ministère du Développement économique, de l'Innovation et de l'Exportation.

4.4 Introduction of a water royalty

To sensitize users to the value of the water resource, improve the environmental management of water and ecosystems and, subsequently, partially fund the protection, restoration and development of this resource, the government has decided to introduce a water royalty as of January 1, 2011.

This action flows from the entry into force, in November 2009, of the *Regulation respecting the declaration of water withdrawals*, formulated by the Ministère du Développement durable, de l'Environnement et des Parcs. The Regulation requires anyone whose water withdrawals total an average daily volume of 75 m^3 or more to declare their activities along with each withdrawal site, as well as measure or estimate the monthly volumes of water withdrawal from each withdrawal site and send an annual declaration to the department.

The royalty will target businesses in the industrial and commercial sectors drawing 75 m^3 of water or more per day either directly or from water mains.

— The royalty does not apply to the residential, institutional or farm sectors.

— The royalty will apply two rates that depend on the use of the resource. Accordingly, the rate will be \$0.0025/m^3 for industries using water in their production processes and \$0.07/m^3 for those using water as a component of their products.

— The amounts generated by this royalty, estimated at \$8.5 million annually, will be deposited in the Green Fund and will be used to fund programs and actions focused on the management and restoration of water and aquatic ecosystems.

The application details of the royalty will be announced at a later date by the Minister of Sustainable Development, Environment and Parks.

5. TAKING STEPS TO MAINTAIN A DYNAMIC CULTURE

Twenty years from now, Québec culture will be just as dynamic as ever and a true testimony to the creativity and identity of Quebecers.

With the 2010-2011 Budget, the government is confirming its support for culture by:

— providing additional financial assistance for cultural businesses and organizations;

— enhancing the tax credits for film dubbing, film production services and the production of multimedia titles.

5.1 Additional support for cultural businesses and organizations

5.1.1 Promotion of artists on the world stage

In recent years, the federal government eliminated the PromArt and Trade Routes programs, both of which were aimed at bringing cultural products to an international audience.

To mitigate the impact of federal funding cuts, the Québec government implemented, as part of its 2009-2010 Budget, a special measure to support the promotion of Québec artists on the world stage, under which $3 million was granted to the Ministère de la Culture, des Communications et de la Condition féminine for 2009-2010.

That assistance helped individuals, businesses or cultural and artistic organizations to improve their capabilities to export their work and penetrate international markets.

Considering the uncertainty of federal government participation, and given the importance for Québec artists of obtaining government support for their international visibility and their efforts to develop markets, the Québec government wishes to renew this program for another three years.

Thus, the government will grant financial assistance of $9 million over three years, that is, $3 million per year to promoting artists on the world stage.

5.1.2 Additional contribution for the Société de développement des entreprises culturelles

The Société de développement des entreprises culturelles (SODEC) has a budget of approximately $20 million to be used to provide loans or loan guarantees to cultural businesses. The financial crisis has had repercussions in Québec's cultural sector, which has experienced a decline in funding from conventional sources. The sector's reliance on SODEC has thus increased.

However, SODEC does not have the necessary funds to respond to these needs. In order to develop and increase its funding activities so as to satisfy the needs of its clientele, the government is announcing the immediate transfer to SODEC of $10 million in the form of a loan or advance, the terms of which are to be agreed upon by the Ministère des Finances, the Ministère de la Culture, des Communications et de la Condition féminine and SODEC.

However, if justified by the needs, this additional amount could be as much as $30 million. In that case, SODEC would be provided with a total budget of $50 million to make loans or loan guarantees to cultural businesses.

5.1.3 Support for the Orchestre symphonique de Montréal and cultural organizations

Culture is key to a society's development. The government must invest in it and support it regardless of the economic context.

Cultural activities such as theatre, shows and other performing arts are among the first spending cuts in an economic downturn.

❑ Support for the Orchestre symphonique de Montréal

A star in the firmament of Québec culture, the Orchestre symphonique de Montréal (OSM) is an artistic organization of international prestige which each year showcases the greatest names in symphonic music from Canada and around the world. A professional organization supporting innovation and excellence, the OSM continues to play its social and institutional role as it invests in the development of symphonic and classical music in all its forms.

In order to durably consolidate the OSM's financial situation so that it can fulfil its mission of promoting the symphonic arts ever more broadly in Québec and around the world, Loto-Québec will provide it with financial support of $10 million in 2010-2011 and $8.5 million per year thereafter.

Under the terms of the agreement to be entered into by the parties, the amounts will be paid by Loto-Québec to the OSM through a specified purpose account under the responsibility of the Ministère de la Culture, des Communications et de la Condition féminine.

5.1.4 Financing of new cultural initiatives

The government funding of $7.1 million that was previously earmarked for the OSM can therefore be redirected to other cultural initiatives for the duration of the agreement.

With the amount thus freed-up, budgets can be allocated to the Conseil des arts et des lettres du Québec (CALQ) and the Ministère de la Culture, des Communications et de la Condition féminine to finance specific projects.

— An amount of $3.7 million made available to the CALQ will thus be used to provide funding that will be reserved for Québec's symphony and chamber orchestras, Les Grands Ballets Canadiens de Montréal, L'Opéra de Montréal, regional agreements with the regional conferences of elected officers (CREs) to support artists and organizations in all the regions, as well as other organizations that receive assistance from the CALQ.

— An amount of $3.4 million will be set aside for the Ministère de la Culture, des Communications et de la Condition féminine to contribute to funding for Québec City's Festival d'arts lyriques, Montréal's Festival international du cirque, arts schools and struggling museums.

TABLE 72

Reallocation of amounts previously dedicated to the Orchestre symphonique de Montréal

(millions of dollars)

	2010–2011
Conseil des arts et des lettres	
– Symphony and chamber orchestras	1.3
– Grands Ballets Canadiens de Montréal	0.5
– Opéra de Montréal	0.4
– Regional agreements	0.8
– Support for organizations	0.7
Subtotal	**3.7**
Ministère de la Culture, des Communications et de la Condition féminine	
– Festival d'art lyrique, Québec City	0.9
– Festival du cirque, Montréal	1.0
– Arts schools	1.0
– Struggling museums	0.5
Subtotal	**3.4**
TOTAL	**7.1**

5.1.5 Support for the Institut national de l'image et du son

The Institut national de l'image et du son (INIS) is a non-profit professional training centre specialized in film, television and interactive media.

The INIS enables student designers, screenwriters, authors, directors and producers of audiovisual and multimedia content to learn the different aspects of their profession. It also supports working professionals who want to acquire new skills or master new tools.

The only francophone centre of its kind in Canada, the INIS promotes national and international exchanges as well as cultural diversity in audiovisual training.

To help the Institut national de l'image et du son fulfil its mission, the government is granting it financial support of $3 million over three years.

5.1.6 Conversion of the Wilder Building to cultural uses

2011 will be the 50th anniversary of the creation of the Ministère de la Culture, des Communications et de la Condition féminine. The government wishes to commemorate this event, given the key role played by the department in the series of social, economic and cultural transformations that marked the history of Québec during the Quiet Revolution.

Accordingly, the government is announcing the renovation of the Wilder Building, which will be able to house cultural organizations, as well as offices of the Ministère de la Culture, des Communications et de la Condition féminine. The renovation of this building will contribute to the cultural vibrancy of the Quartier des spectacles in Montréal.

This renovation project will be under the responsibility of the Société immobilière du Québec. The Minister of Culture, Communications and Status of Women and the Minister of Government Services will soon announce the details of this project.

5.2 Improvement to the tax credits relating to film dubbing, film production services and the production of multimedia titles

5.2.1 Improvements to the refundable tax credit for film dubbing

Since December 1997, a refundable tax credit for dubbing has been available to corporations that carry out dubbing of Québec film and television productions.

The rate of the tax credit is 30% and it covers labour expenditures relating to dubbing activities. However, eligible labour expenditures may not exceed 40.5% of the consideration paid for the dubbing contract.

In 2008, 2 810 dubbing contracts had benefited from the tax assistance since the introduction of the tax credit. Moreover, the number of employees in the industry rose from 700 in 1998 to more than 800 in 2008, a rate of growth of 14.3% over the period.

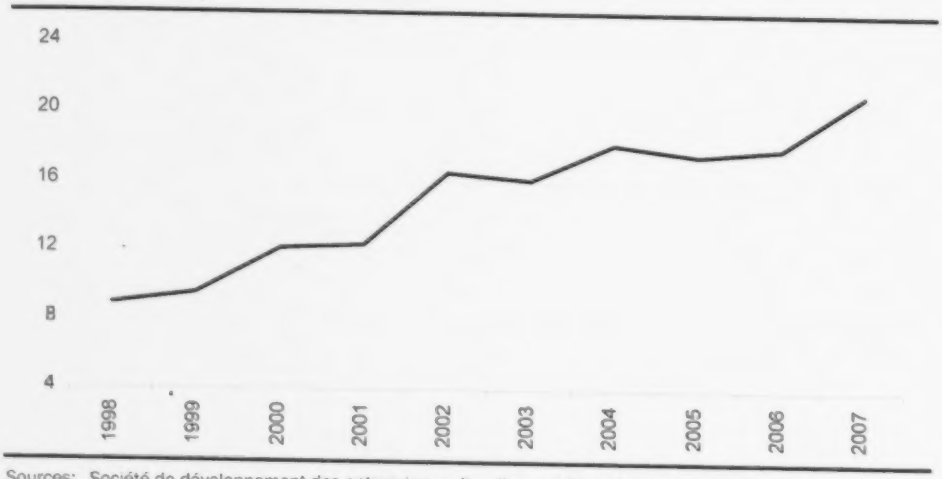
❑ Growth in the volume of activities

The implementation of the tax credit has had a significant impact on the growth of activity in the dubbing industry.

Between 1998 and 2007, companies have more than doubled the volume and value of contracts obtained. Accordingly, the number of dubbing contracts awarded annually has risen from 128 to 364, while their value rose from $9.0 million to $21.5 million.

CHART 38

Growth in the value of dubbing contracts between 1998 and 2007
(millions of dollars)



Sources: Société de développement des entreprises culturelles and Ministère des Finances du Québec

Between 1998 and 2007, Québec-based dubbing companies have been particularly active in the film sector. Their share of the Québec market has grown from 59% to 75%.

❑ Increase in the rate and cap of the tax credit

In general, the tax credits intended for cultural sector businesses apply at 35% and are calculated on labour expenditures.

For reasons of fairness compared to these other measures and to reflect the cost structure of businesses, the rate of the refundable tax credit for film dubbing is being raised from 30% to 35% and the cap on eligible labour expenditures is being raised from 40.5% to 45% of the consideration paid for the dubbing contract.

— With these changes, the maximum assistance will reach 15.75% of the consideration paid for the dubbing contract.

TABLE 73

Illustration of the calculation of the tax credit for film dubbing

	Before changes	After changes
Total cost of dubbing		
- Cost of labour	$80.00	$80.00
- Other costs	$20.00	$20.00
Total	**$100.00**	**$100.00**
Cap on eligible expenditures		
- Rate	40.5%	45.0%
- Eligible costs	$40.50	$45.00
Tax credit		
- Rate	30.0%	35.0%
- Total amount of the tax credit	$12.15	$15.75

The government hopes this improvement to the tax credit will enable the industry to offer competitive prices and help make it more productive, ensuring that dubbing activities continue to grow in Québec.

Over a full year, this improvement will provide Québec's dubbing industry with additional assistance of $500 000.

5.2.2 Support for foreign film production in Québec

In 2008, Québec experienced an appreciable drop in filming activities of foreign productions, leading to job losses for the industry.

— In 2008, an estimated 1 500 jobs were associated with foreign productions.

— In 2007, that number was close to 4 450.

TABLE 74

Foreign productions filmed in Québec – Current situation

	2006	2007	2008F
Value of productions ($ million)	194	177	60
Estimated jobs in Québec	4 850	4 450	1 500

F: Forecast.
Sources: Société de développement des entreprises culturelles and Bureau du cinéma et de la télévision du Québec.

❑ The need to act to keep jobs in Québec

It is hard to attribute this decline in production to the economic situation. Other jurisdictions did not experience a comparable decline over the same period.

Rather, the rise in the exchange rate and the significance of the tax incentives offered in other jurisdictions substantially reduced Québec's attractiveness.

— Many American states have improved the tax benefits granted to the film industry by allowing tax assistance on all expenditures incurred by the producer (the all spend concept).

— Some jurisdictions offer highly competitive labour costs or have particular geographical advantages. For example, British Columbia can attract American audiovisual productions more easily given its proximity to California which is in the same time zone.

If Québec is to remain competitive and keep its industry growing, its tax system must be very competitive.

❑ The tax credit for film production services

The tax credit for film production services, introduced in 1998, essentially targets foreign productions filmed in Québec. Ontario and British Columbia have a similar tax credit.

Since June 2009, many changes have been made to the tax credit by the three jurisdictions.

— In June 2009 and February 2010, Québec changed the tax credit base to have the 25% rate apply to all production expenditures (the all spend concept). Québec implemented a 20% improvement calculated on labour expenditures (including employer costs) relating to the production of special effects.

— In June 2009, Ontario changed the tax credit base to have the 25% rate apply to all production expenditures (the all spend concept). Ontario maintained a 20% improvement calculated on labour expenditures relating to special effects.

— In March 2010, British Columbia raised the rate of the tax credit to 33%, applicable to the production's labour expenditures. British Columbia boosted the improvement to 17.5% for labour expenditures relating to special effects.

TABLE 75

Comparison of tax credit rates for production services (Québec, Ontario and British Columbia) – March 2010
(per cent)

	Québec	Ontario	British Columbia
Production expenditures			
- Labour	25	25	33
- Other	25	25	—
Special effects			
- Labour[1]	45	45	50.5
- Other	25	25	—

1 This rate includes the improvement for special effects of 20% or 17.5%, depending on the province.

❑ The competitiveness of the tax credit

Québec's tax credit compares well with that of the other provinces.

Taking into account the expenditures for all foreign productions certified by the Société de développement des entreprises culturelles since 2004, tax assistance, as a proportion of production costs, is 31.80% in Québec compared with 30.88% in Ontario and 22.34% in British Columbia.

TABLE 76

Comparison of tax assistance for a $100 production – Québec, Ontario and British Columbia[1]

(dollars)

	Québec[2]	Ontario	British Columbia
Cost of the production			
Labour			
- Filming	20	20	20
- Special effects	34	34	34
Other			
- Special effects	9	9	9
- Rental of studios, equipment, etc.	37	37	37
Total	**100**	**100**	**100**
Tax credit for production services			
Labour			
- Filming	5.00	5.00	6.20
- Special effects	15.30	14.38	16.14
Other			
- Special effects	2.25	2.25	—
- Rental of studios, equipment, etc.	9.25	9.25	—
Total	**31.80**	**30.88**	**22.34**
TAX CREDIT AS A PERCENTAGE OF THE TOTAL COST	**31.80**	**30.88**	**22.34**

1 According to the production expenditures certified by the Société de développement des entreprises culturelles since 2004.

2 Assuming Québec will be the only jurisdiction to include employer costs in the calculation of tax assistance relating to special effects.

- **The government's intervention is producing results: the industry is on the way to winning back all the jobs lost over the last two years**

According to information obtained from the Société de développement des entreprises culturelles and the Bureau du cinéma et de la télévision du Québec, four foreign productions have decided to film in Québec since the improvements were implemented last June.

According to these sources, filming expenditures incurred in Québec for 2010 amounted to $203 million while the amount in 2008 and 2009 was much less.

These projections confirm that the industry has returned to a level of activity similar to that of 2006 and 2007.

TABLE 77

Foreign productions filmed in Québec[1] – Current situation

	2006	2007	2008[P]	2009[P]	2010[F]
Value of productions ($ million)	194	177	60	70	203
Estimated jobs in Québec	4 850	4 450	1 500	1 700	5 100
Cost of the tax credit ($ million)	25	23	8	20	64

F: Forecast.
1 The data are based on the year the production was filmed. The certification date of the production is used to estimate the tax expenditures relating to the tax credit.
Sources: Société de développement des entreprises culturelles and Bureau du cinéma et de la télévision du Québec.

5.2.3 Improvement to the tax credit for the production of multimedia titles

Since 1996, Québec has encouraged the development of the video game industry by means of the refundable tax credit for the production of multimedia titles, whose rate can reach 37.5%. In general, this tax assistance is calculated on the salaries paid to employees directly involved in the design of a multimedia title.

To reflect the development of new distribution platforms, the tax credit will be changed.

5.2.3.1 Convergence in the design of video games and digital animation films

The computer tools and processes used in creating a video game or a digital animation film are converging to ever greater degree.

For example, in the design of a video game, corporations often use short film sequences, i.e. non-interactive scenes that generally serve as the introduction, explanation or epilogue for a video game and are similar to a traditional animation film.

Accordingly, a team of creators, computer specialists, artists, digital designers and modellers will create a bank of graphic assets (e.g.: characters or scenes) that will be used in a video game or film as the case may be.

In general, the short film sequences incorporated into a video game are eligible for the tax credit for the production of multimedia titles.

However, a corporation may develop a short film sequence that, while closely tied to a video game, is not integrated in it, for example, where the corporation opts for a different distribution platform, such as a website.

— Such a short film sequence would not be eligible for the tax credit for the production of multimedia titles, but could be for the purposes of a tax credit encouraging film production.

— It becomes difficult for a corporation to distinguish between eligible expenditures associated with one tax assistance rather than another in the case where digital animations are made using the same graphic assets.

To simplify the application of tax credits in such circumstances, the expenditures associated with the making of a digital animation, whether integrated in a video game or not, will henceforth be eligible for the tax credit for the production of multimedia titles.

To benefit from the broadening, a corporation will have to show that:

— the digital animation is related to a video game whose eligible labour costs required for its design are at least $1 million;

— the digital animation relates to the intellectual property or the licence covering the video game.

TABLE 78

Tax credit for the production of multimedia titles – Summary of changes

Before change	After change
Eligible multimedia title:	**Eligible multimedia title:**
– Presence, in a significant proportion, of three of the following four types of data: text, sound, static images and animated images	– Presence, in a significant proportion, of three of the following four types of data: text, sound, static images and animated images
– Action of software enabling interactivity	– Action of software enabling interactivity
– Published on an electronic medium	– Published on an electronic medium
	Eligible related title:
	– Presence, in a significant proportion, of three of the following four types of data: text, sound, static images and animated images
	– Link with a principal multimedia title:
	• established on the basis of the intellectual property or licensing rights belonging to the corporation or another associated corporation
	• for which the eligible labour expenditure is at least $1 million

5.2.3.2 Improvement to assistance for video games previously commercialized

For about a dozen years, the gaming industry has experienced a craze for a new form of distribution and commercialization of its products.

— Rather than being sold on a conventional CD-ROM, the game is offered online, which, among other things, allows many players to play together in real time. This is known as "massively multiplayer online games".

— To keep players interested, the features of such a game must evolve over time, which affects the period over which development work on the game takes place.

Currently, the tax credit targets expenditures made for the design of the game and during a period of 24 months following the date of its commercialization.

To stimulate the development of titles covered by the tax assistance, the eligibility period will be extended to 36 months.

Moreover, the tax credit does not cover certain activities relating to the running of massively multiplayer online games, even though they have high value-added because of the complexity inherent in the development of the information technology with which it is associated.

To stimulate the development of this technology infrastructure, the expenditures eligible for the tax credit will be broadened to include activities relating to system architecture, such as the design, installation and maintenance of a network of servers needed for the running of an eligible title.

6. ENSURING SUSTAINABLE DEVELOPMENT BY PROMOTING INTERGENERATIONAL EQUITY

Meeting the challenge of the future means ensuring sustainable development, i.e. meeting the needs of the present generation without compromising the ability of future generations to meet their needs. Sustainable development thus goes hand in hand with the notion of intergenerational equity.

To build Québec for the next 20 years, the 2010-2011 Budget includes two initiatives to promote intergenerational equity, namely:

— setting new objectives for the Generations Fund, our principal tool for ensuring equity;

— raising the price of heritage electricity and depositing the revenue in the Generations Fund, thereby promoting intergenerational equity.

6.1 Generations Fund

The Minister of Finance announced the creation of the Generations Fund in the March 23, 2006 Budget Speech. The government deposits certain revenues into the fund, which will eventually be used to pay down the debt.

❑ Initial objective

The objective was to ensure that the government's total debt would represent 25% of GDP as at March 31, 2026. This objective was enshrined in the *Act to reduce the debt and establish the Generations Fund*, passed on June 15, 2006. The objectives set in the Act concern the government's total debt, the debt concept that corresponded to the government reporting entity in effect when the Act was passed.

❑ New elements

Two major events have occurred since the Generations Fund was created.

— In December 2007, the government carried out a substantial accounting reform. In particular, this reform broadened the reporting entity to include institutions in the health and social services network and most institutions in the education network. A new debt concept, gross debt, was created to correspond to the new reporting entity. The accounting reform added $21 billion in debt, or the equivalent of 7 percentage points of GDP. Almost the entire amount of this additional debt was previously included in the debt of the other components of Québec's public sector.

TABLE 79

Total debt and gross debt of the Québec government as at March 31, 2007
(millions of dollars)

TOTAL DEBT FOR THE PURPOSES OF THE *ACT TO REDUCE THE DEBT AND ESTABLISH THE GENERATIONS FUND*[1]	**122 575**
As a % of GDP	43.4
Plus: Debt of Financement-Québec	12 073
Debt of the Corporation d'hébergement du Québec and other entities	3 560
Debt of the Société québécoise d'assainissement des eaux	2 522
Debt of Immobilière SHQ	1 942
Net employee future benefits liability	752
Subtotal	20 849
GROSS DEBT	**143 424**
As a % of GDP	**50.8**

1 Excludes pre-financing.

— In addition, the recession will have left budgetary deficits totalling $12.9 billion from 2009-2010 to 2012-2013, which will have raised the debt.

❑ New debt reduction objectives

Accordingly, as provided for in last year's budget, the government will amend the Generations Fund legislation to revise its debt reduction objectives.

The government is determined to reduce Québec's indebtedness to ensure greater intergenerational equity. To that end, additional deposits will be made in the Generations Fund starting in fiscal 2014-2015, that is, once fiscal balance has been restored. Revenue generated by the increase in the price of heritage electricity will be deposited in the Generations Fund.

Furthermore, the discussions about the debt that have taken place in recent years highlight the distinction between "good debt" and "bad debt".

Good debt is debt that is contracted to acquire an asset; for example, to build a road, school or hospital. Bad debt is debt that does not correspond to any asset and it is the debt that must be tackled first.

The debt representing accumulated deficits, i.e. the bad debt, is expected to stand at $106.6 billion as at March 31, 2010, equivalent to 35.4% of GDP.

The government's first objective is to reduce this ratio by half to 17% in 2025-2026. This is a maximum level.

TABLE 80

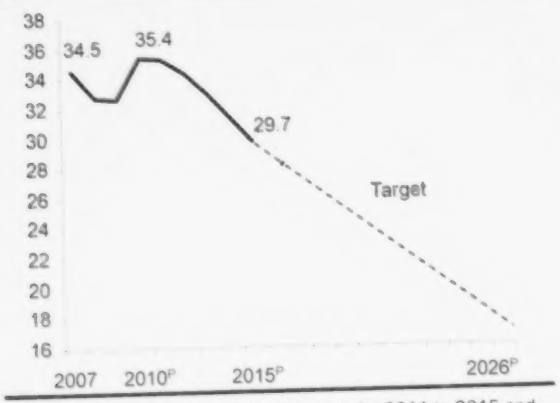
New debt reduction objectives
(as a percentage of GDP)

	March 31, 2026
Debt representing accumulated deficits	17
Gross debt	45

Another objective will be set for the gross debt. This debt is expected to stand at $160.1 billion as at March 31, 2010, equivalent to 53.2% of GDP. This ratio is projected to reach up to 55.1% of GDP in 2011-2012 and then start falling. The government's goal is to reduce the ratio of gross debt to GDP to 45% in 2025-2026. Again, this is a maximum level.

CHART 39

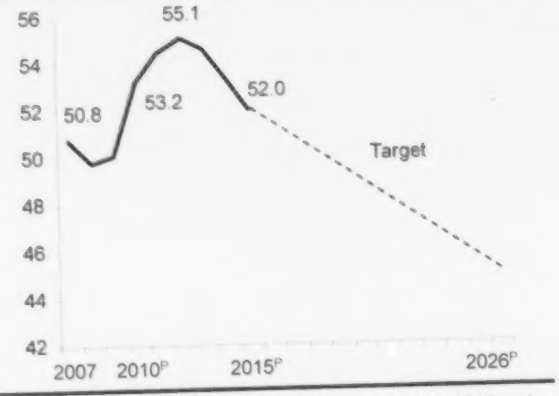
Debt representing accumulated deficits
(as a percentage of GDP)



P: Preliminary results for 2010, forecasts for 2011 to 2015 and projections for subsequent years.

CHART 40

Gross debt[1]
(as a percentage of GDP)



P: Preliminary results for 2010, forecasts for 2011 to 2015 and projections for subsequent years.
1 Excludes pre-financing.

6.2 Increase in electricity rates and indebtedness

Electricity is an exceptional asset to Québec.

— Québec has one of the largest drainage basins in the world, representing a major natural and renewable resource available to produce clean energy.

— Hydroelectricity has thus become an economic asset to Québec. Developing it should bring pride to every Quebecer. Water is our blue gold.

Once the budget is balanced again in 2013-2014, the government will take steps to see that this hydraulic resource is used to greater advantage to help reduce our indebtedness for the benefit of future generations.

— The government has noted that the price signal sent to Québec electricity consumers is causing problems.

— It is important to improve rate setting by gradually increasing the price of electricity.

— The increase in the price of heritage pool electricity favoured by the government will have a controlled impact on each consumer category.

6.2.1 Sending a better price signal

The electricity rates in Québec are lower than the average rate elsewhere in Canada.

For illustration purposes, the average electricity price for a monthly residential consumption of 1 000 kWh was 6.87¢/kWh in Québec on April 1, 2009, compared with 11.17¢/kWh for the same consumption in major cities of the other provinces.[14] That means that the average electricity price in Québec was roughly 38% lower than the average price elsewhere in Canada.

One reason for this is the evaluation of costs in setting rates in Québec.

— The cost attributed to heritage pool electricity represents approximately 40% of the total costs used in setting rates.

— The maximum price attributed to heritage pool electricity is set at 2.79¢/kWh in the *Act respecting the Régie de l'énergie*.

This *a priori* favourable rate setting does not make sufficient allowance for the average cost of supplies in excess of the heritage pool, i.e. approximately 8¢/kWh.

The relatively low price might also encourage consumers to overlook the value of the resource and, consequently, lead to over-consumption.

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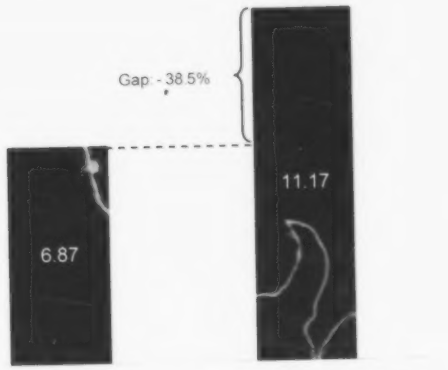
14 Hydro-Québec (2009). *Comparison of Electricity Prices in Major North American Cities*.

CHART 39

Average residential electricity price in Québec and the major cities of the other provinces[1] – April 1, 2009
(cents per kilowatthour)

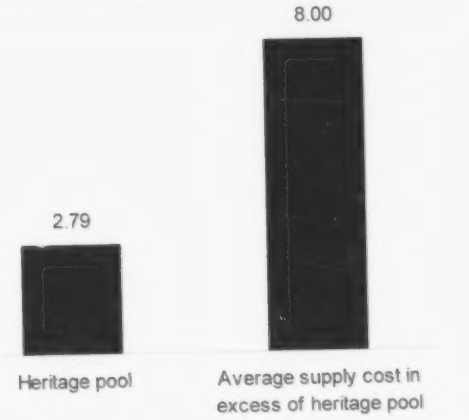


1 Hydro-Québec (2009). *Comparison of Electricity Prices in Major North American Cities*. For a monthly consumption of 1 000 kWh.

Sources: Hydro-Québec and Ministère des Finances du Québec.

CHART 40

Price attributed to heritage pool electricity and average cost of supplies in excess of the heritage pool
(cents per kilowatthour)



Sources: Hydro-Québec and Ministère des Ressources naturelles et de la Faune.

6.2.2 Improving the rate-setting method

❑ Gradual increase in electricity cost

To better manage our hydroelectric resources and reduce the debt load, the Québec government will adjust the cost of heritage pool electricity set in the *Act respecting the Régie de l'énergie* so as to gradually increase Québec's electricity rates starting in 2014.

The increase in the cost of heritage pool electricity will be determined in such a way as to maintain Québec's price advantage over the major North American jurisdictions. Adjustments will be made while ensuring:

— the average residential rate in Québec remains advantageous compared with the rest of Canada;

— the commercial rate is similar to the Canadian average;

— there is no impact on businesses customers subject to the large-power rate, so that business activities and jobs, especially in the regions, are protected.

There are a number of benefits to increasing the price of electricity sold in Québec, namely:

— The shareholder – the government – and, consequently, Québec taxpayers, will receive a return on the invested capital that better reflects the true value of the electricity generated. The full amount of the additional revenue collected by the government as a result of the adjustment will be deposited in the Generations Fund: it is only logical that this income be reserved for reducing the debt load of present and future generations to ensure intergenerational equity.

— A higher electricity rate will be an incentive for Quebecers to change their consumption habits and save more electricity.

Current rate-setting method

In Québec, the Régie de l'énergie has exclusive jurisdiction to set electricity and natural gas distribution rates as well as the power to monitor and regulate the price of petroleum products.

Rates are set using the cost of service method, i.e. by taking into account all of the costs to be recovered. This method generally consists in determining the overall costs for the provision of the service, including the rate of return of the regulated business.

Rates are established on the basis of the cost of the electricity that Hydro-Québec Distribution purchases from Hydro-Québec Production, referred to as heritage-supply costs, and the cost of post-heritage supplies acquired from different suppliers, including Hydro-Québec Production.

- Since June 2000, heritage-supply costs are determined by the *Act respecting the Régie de l'énergie* and set at 2.79¢/kWh[1] for a consumption level of 165 terawatthours (TWh).
- Distributors of post-heritage electricity in excess of 165 TWh that is sold in Québec pay the market price, primarily after soliciting tenders.[2]

In addition to supply costs, rates are set on the basis of:

- the cost of electric power transmission;
- the cost of electric power distribution;
- a rate of return on Hydro-Québec's distribution and transmission assets that is determined by the Régie de l'énergie.

Illustration of the rate increase required for Hydro-Québec in 2010
(millions of dollars)

Total revenue required in 2010	
– Cost of heritage and post-heritage electricity	4 614
– Cost of transmission	2 633
– Cost of distribution	3 087
Subtotal	**10 334**
Revenue from sales in 2010 before rate increase	**10 301**
Revenue shortfall	33
Revenue from sales in 2010 before rate increase, excluding special contracts	**9 500**
Required rate increase (per cent)	**0.35%**

Source: Hydro-Québec.

1. *Act respecting the Régie de l'énergie*, section 52.2.
2. Note that the average cost of new supplies in excess of the heritage pool is approximately 8¢/kWh.

❑ Terms and conditions

The adjustment in electricity rates includes two components.

— First, the average cost of heritage pool electricity will gradually be raised by 1¢/kWh over five years, starting in 2014.

— Second, the government will amend the *Act respecting the Régie de l'énergie* so that, after 2018-2019, the cost of heritage pool electricity is indexed to the consumer price index (CPI[15]), up to 2% per year.

The government will thereby ensure that the value of the resource, notably the cost of new electricity supplies, is taken into account while leaving the concept of heritage pool intact.

❑ Mitigation measure for low-income households

The rate increases could have a slightly greater impact on poor households in need of a more-costly essential service without changing the rates as such.

— The new solidarity tax credit will be adjusted to offset the rate increase for low-income households.

— The adjustments that will be made to this tax credit will be specified at a later date.

❑ Keeping large-power industrial customers competitive

It is important to minimize the impact of the rate increase on economic growth and jobs, particularly in the regions.

To that end, the government will ensure that the increase in the price of heritage pool electricity does not jeopardize the competitive edge of electricity-intensive industries.

15 Rate corresponding to the annual change in the average overall Québec consumer price index without alcoholic beverages and tobacco products.

6.2.3 Impact of the higher price for heritage pool electricity

Over the period 2014-2015 to 2018-2019, the increase in the price of heritage pool electricity determined by the government will translate to an average annual rate increase of around 3.7% for all Québec consumers, with the exception of large industrial customers for economic reasons.

This hike is in addition to the increases over the coming years that will be requested by Hydro-Québec and approved by the Régie to cover the increase in the other cost components.

The proposed increase in electricity rates, excluding the basic rate increases that Hydro-Québec could make in the coming years, will ultimately translate to additional revenue of approximately $1.6 billion per year, the entire sum of which will be deposited in the Generations Fund.

— For illustration purposes, the increase in the price of heritage pool electricity was assessed to have a uniform impact on all consumer categories, except large-power industrial customers. According to this assessment, the increase would be assumed more or less equally by residential customers and other customer categories.

— A uniform impact was employed by the Régie de l'énergie for the last rate increases.

❑ Impact on residential rates

For illustration purposes, the gradual increase in the cost of heritage pool electricity between now and 2018-2019, as proposed by the government, will translate to an average annual rate increase of around 3.7% for residential customers starting in April 2014. The average price for a typical monthly consumption level in Québec of 1 000 kWh[16] will thus rise from 6.87¢/kWh on April 1, 2009 to 8.24¢/kWh on April 1, 2018.

Québec consumers will continue to enjoy better electricity prices than in the rest of Canada.

— For example, for customers whose monthly consumption is 1 000 kWh, the rate hike will narrow the gap between electricity prices in Québec and those in Canada's major cities on April 1, 2009 by a third, from 38.5% to 26.2%.

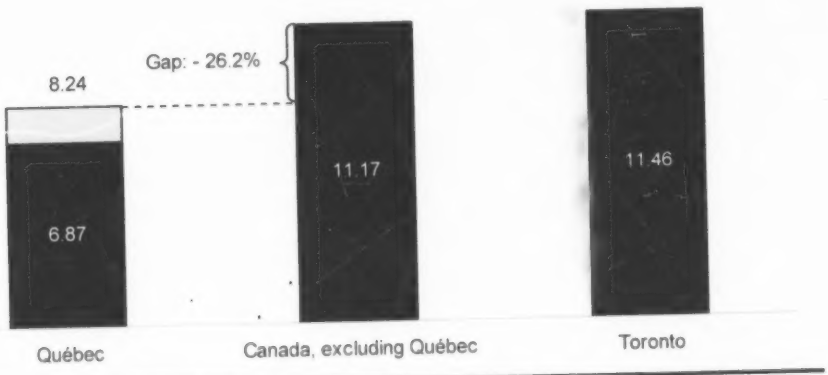
— Although narrowed, the current price gap with Toronto will continue to be in Québec's favour, dropping from 4.59¢/kWh on April 1, 2009 to 3.22¢/kWh on April 1, 2018, for a difference of nearly 30%.

16 Electricity price in Montréal on April 1, 2009, for a monthly consumption of 1 000 kWh. The illustrated increase does not account for the regular changes resulting from the normal annual rate-setting process carried out by the Régie de l'énergie.

— Note that significant rate increases were approved by other provincial authorities in Canada in 2009, including Nova Scotia (9.3%), British Columbia (9.2%) and Saskatchewan (8.5%).

CHART 41

Narrowing of the gap in residential electricity prices with the average price in Canada[1] and Toronto – Illustration
(cents per kilowatthour)



1 Average residential electricity price on April 1, 2009, in Canada's major cities, excluding Québec.
Sources: Hydro-Québec, *Comparison of Electricity Prices in Major North American Cities, 2009* and Ministère des Finances du Québec.

Québec consumers will also continue to enjoy more advantageous rates than in major North American cities.

— On the basis of the average electricity prices for residential customers on April 1, 2009, for a monthly consumption of 1 000 kWh, Québec will slip two places in the ranking, just behind Winnipeg and Vancouver, as a result of the rate increase.

— Rates in Québec will still be advantageous, especially since possible electricity rate increases in other jurisdictions, particularly British Columbia, which plans on raising rates considerably in the coming years, were not taken into account.[17]

CHART 42

Comparison of North American electricity prices for residential customers on April 1, 2009 – Illustration of Québec prices at term
(cents per kilowatthour)

Note: Monthly bills (excluding taxes). Rates in effect April 1, 2009.
Sources: Hydro-Québec, *Comparison of Electricity Prices in Major North American Cities, 2009* and calculations performed by the Ministère des Finances du Québec.

17 British Columbia's *Budget and Fiscal Plan 2010/11 - 2012/13* provides for electricity rate increases of 9.1% in 2010-2011 and 12.9% in 2011-2012.

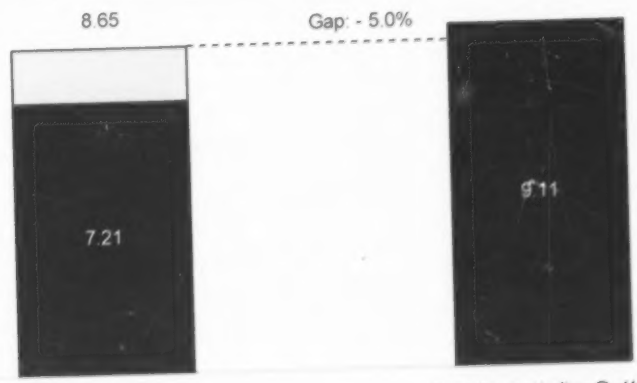
❑ Impact on rates for small and medium-power commercial, institutional and industrial customers

Generally speaking, the gradual increase in the cost of heritage pool electricity from 2014 to 2018, as proposed by the government, will represent an average annual rate increase of around 3.7% for small and medium-power commercial, institutional and industrial customers in Québec.

On the basis of the typical consumption levels used by Hydro-Québec, before accounting for normal rate changes, the gradual rate increase proposed by the government will raise the average electricity price for medium-power commercial, institutional and industrial customers in Québec from 7.21¢/kWh on April 1, 2009 to 8.65¢/kWh on April 1, 2018, a similar rate to the average electricity price in Canada's major cities outside Québec.

CHART 43

Narrowing of the gap with the average price in Canada for medium-power commercial, institutional and industrial customers[1] – Situation at term
(cents per kilowatthour)



1 Average price for medium-power commercial, institutional and industrial customers on April 1, 2009 in Canada's major cities, excluding Québec. For customers with a power demand of 1 000 kWh, a monthly consumption of 400 000 kWh and a load factor of 56%.

Sources: Hydro-Québec, *Comparison of Electricity Prices in Major North American Cities, 2009* and Ministère des Finances du Québec.

❑ Impact on the large-power rate

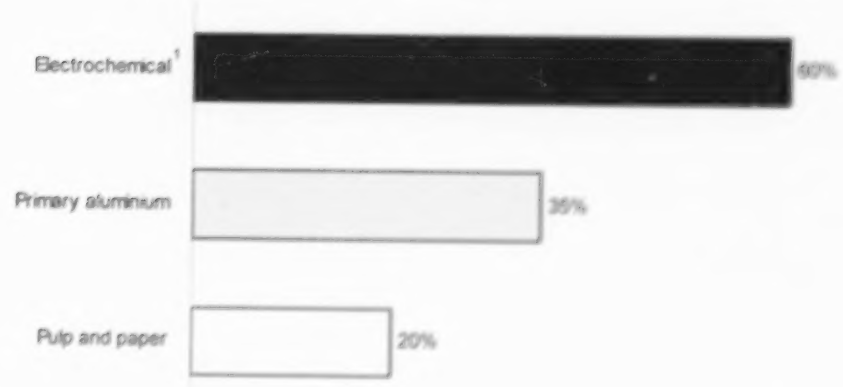
■ Electricity: a strategic input for certain industrial sectors

A number of large industrial sectors have developed in Québec thanks to, among other factors, the advantageous and stable electricity rates, which gave them an important competitive edge. The electrochemical, aluminium and pulp and paper sectors are some of the major industrial sectors in Québec that were able to take advantage of this competitive edge.

Electricity is an important input into the production processes of large enterprises operating in these industrial sectors. It can account a very large share of production costs, up to 60% in some cases.

CHART 44

Share of electricity costs in total production costs for select sectors – Large enterprises
(per cent)



1. Process whereby electricity is used in the manufacture of certain chemical products (e.g. to make chlorine).
Source: Ministère des Finances du Québec.

The majority of business customers charged the high-power rate are exporting firms requiring major investments. Competitive electricity rates give them a comparative advantage that makes them more competitive on export markets and, consequently, enables them to retain thousands of lasting, quality jobs, particularly in the regions.

Termination of certain special contracts

Since the 1980s, special contracts have been negotiated for around ten Hydro-Québec customers. The purpose of these contracts is to determine electricity rates on the basis of certain parameters not in the rate schedules. For example, the electricity rates applicable to aluminium smelters vary according to world aluminium prices. These are shared risk contracts.

Certain contracts tied to aluminium prices that expired between 2014 and 2016 have been renegotiated. When these contracts expire, the enterprises concerned will be subject to a rate that should be close to the criteria for large power rates.

Adoption of the new rate schedule will have a major impact for these enterprises. By way of illustration, based on current forward prices for aluminium, these enterprises would face an average increase of around 25% in their electricity rates when the current contracts expire, adding roughly $160 million to the annual electricity bill, as of 2017, of all the enterprises concerned.

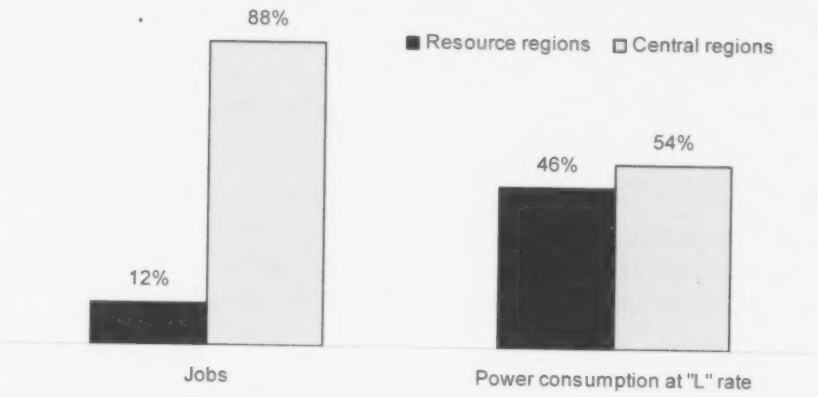
A major regional presence

A number of large enterprises enjoying the large-power rate operate in resource and outlying regions. They are often a significant part of these regions' industrial fabric and support considerable economic activity.

Even though the resource regions account for only 12% of employment in Québec, they account for 46% of the electricity billed at the large-power rate or covered by special contracts.

CHART 45

Breakdown of employment and power consumption by large-power industrial customers[1] – Resource regions and central regions, 2009



1 Electricity used by industrial customers and billed at the large-power rate or covered by special contracts.
Sources: Ministère des Finances, Ministère des Ressources naturelles et de la Faune and Hydro-Québec.

Maintaining competitive electricity rates for large enterprises is thus an important issue for regions hosting enterprises that pay these rates. Thousands of jobs in the regions depend on these enterprises' being able to compete on foreign markets.

■ Supporting wealth creation through competitive large-power rates

Enterprises paying the large-power rate have played, and continue to play, a significant part in shaping Québec's economy.

— Major industrial sectors (aluminium, electrochemical, pulp and paper) have developed thanks to competitive electricity rates.

— New sectors of tomorrow's economy are emerging, such as polycrystalline siliçon, which is used to make solar panels. Our competitive electricity rates make Québec an attractive place for developing these sectors.

Thousands of jobs in the regions are dependent on large exporting firms that enjoy the large-power rate. These firms represent the foundation for development of these regions.

— For these reasons, industrial customers will not be affected by the increase in the cost of heritage pool electricity. A separate rate schedule will be maintained for industrial customers paying the large-power rate (L). After 2018, the heritage electricity supply cost for business customers paying the "L" rate will be indexed annually according to the indexation applicable to heritage pool electricity.

— In addition, a new large-power rate applicable to non-industrial customers will be determined and adjusted to the incremental cost of heritage pool electricity. The rate for non-industrial customers will be raised an average 3.7% annually from 2014 to 2018 relative to the current "L" rate. This increase does not jeopardize the sustainability of the operations of non-industrial customers and sends a positive price signal.

— The same as now, these rates will remain subject to the annual rate adjustments which Hydro-Québec intends to continue applying.

■ Wealth creation in keeping with the competitive edge afforded

Keeping the large-power rate at a competitive level does not mean that large-power customers will get away from the reality of the growing cost of new energy supplies.

As stipulated in the Québec Energy Strategy, business customers that wish to enjoy the advantages of the "L" rate will have to create wealth for Quebecers that more that offsets the real cost of new energy supplies. Hydroelectricity is and must remain an asset to the Québec economy.

AN OMNIBUS BILL

The 2010-2011 Budget contains a lot of major initiatives to restore fiscal balance, reduce the debt and support economic recovery. Several of these initiatives will necessitate legislative amendments.

In the coming weeks, the Minister of Finance will table an omnibus bill in the National Assembly providing for these amendments.

❑ Fair, responsible remuneration of personnel

The omnibus bill will include provisions for implementing the measures relating to the remuneration of senior officers, senior management and certain other public sector employees.

❑ Creation of the FORT

The omnibus bill will establish the Fonds des infrastructures routières et de transport en commun (FORT).

— In this respect, the purpose of the bill will be to broaden the mandate of the Fonds de conservation et d'amélioration du réseau routier (FCARR) as of 2010-2011, rename it the Fonds des infrastructures routières et de transport en commun, specify the revenues dedicated to it and define the expenditures that the FORT will assume.

— The bill will also specify that the activities of the Fonds pour la vente de biens et services du ministère des Transports, the Fonds des partenariats en matière d'infrastructures de transport (not yet active) and the Fonds des contributions des automobilistes au transport en commun will be incorporated into the FORT.

❑ Tax evasion

The omnibus bill will include amendments to the *Act respecting the ministère du Revenu* regarding certain major tax offences to raise the maximum prison sentence a court may impose for such offences from two years to five years less a day.

❑ Policy for the funding of public services

The omnibus bill will follow up on the policy for the funding of public services announced in the 2009-2010 Budget.

— The bill will enable the government to ensure that the principles of the policy are applied across public organizations so as to enable adequate and fair funding of public services.

— The bill will implement the rate-setting practices defined by the policy, namely:

  — guideposts for the setting of user fees by public bodies;

  — compulsory re-evaluation of the cost of fee-based services at least once every five years;

  — annual indexation of some user fees;

  — the possibility for the government to establish special funds allocated to the funding of public services for which user fees are collected;

  — annual accountability reports on user fee practices by public bodies.

❑ Creation of the Fonds pour le financement des établissements de santé

The omnibus bill will establish the Fonds pour le financement des établissements de santé, a fund dedicated exclusively to financing health and social services institutions. The bill will set forth the terms of management of the fund and the revenues dedicated to it.

❑ Unfreezing the cost of heritage pool electricity

The omnibus bill will amend the *Act respecting the Régie de l'énergie* and the *Hydro-Québec Act* to unfreeze the cost of heritage pool electricity.

— The bill will raise the average supply cost of heritage electricity by 1¢/kWh over a period of five years, starting in 2014.

— After 2018-2019, the cost of heritage pool electricity will be indexed to the consumer price index, up to 2% per year.

— A new large-power rate applicable to non-industrial customers will be set.

— The full amount of the revenue generated by the increase in the price of heritage electricity will be deposited in the Generations Fund.

❑ New debt objectives

The omnibus bill will revise the debt objectives defined in the *Act to reduce the debt and establish the Generations Fund*.

— The first objective defined in the legislation will be to reduce the ratio of bad debt (debt representing accumulated deficits) to GDP to 17% as at March 31, 2026.

— The second objective, also defined in the legislation, will be to reduce the ratio of gross debt to GDP to 45% as at March 31, 2026.

❑ Increase in the share capital of SÉPAQ and the SGF

The omnibus bill will include a measure amending the *Act respecting the Société des établissements de plein air du Québec* (SÉPAQ) to increase the amount of authorized share capital of SÉPAQ by $35 million. This increase will enable SÉPAQ to complete the funding of a plan to invest in projects with a financial return and thus create new jobs in the regions.

The bill will amend the *Act respecting the la Société générale de financement du Québec* to increase the SGF's authorized social capital by $300 million to allow it to deliver on the government's commitments announced in connection with the plan to restore fiscal balance. The bill will also provide that annual financial forecasts must be submitted to the Minister of Finance and to the Minister of Economic Development, Innovation and Export Trade.

CONCLUSION

Québec is facing major challenges.

Our capacity to adequately meet those challenges will largely determine our future as well as that of generations to come.

The government is drawing on the numerous assets we have to implement an action plan that is at once ambitious and realistic, an action plan that takes bold steps and presents a clear vision for the Québec of tomorrow.

Through the 2010-2011 Budget and the accompanying action plan, the government is undertaking the appropriate initiatives to:

— support the economy and the economic recovery;

— meet the difficult challenge of putting the public finances in order and balance the budget again by 2013-2014;

— initiate a large-scale process to build Québec for the next 20 years.

This budget and this action plan affirm more than ever the priority the government places on the economy, because creating wealth is the key to everything else. At the same time, the government is taking the means necessary to strengthen Québec's social fabric, ensure the sustainability of the public services that we value and meet the needs of future generations.

The government is convinced that the 2010-2011 Budget and the action plan will garner broad support and win the participation of all Quebecers. This also holds true for our collective ability to build the common weal for today and tomorrow.

APPENDIX:
FINANCIAL IMPACT OF THE MEASURES IN THE 2010-2011 BUDGET

The government's action plan: cash resources injected into Québec's economy in 2009 and 2010 –2010-2011 Budget[1]
(millions of dollars)

	Amount incurred in 2009	Amount forecast in 2010	Total over two years
1. Additional immediate actions to support businesses and workers	1 896	2 131	4 027
2. Invest in public infrastructure	3 952	4 279	8 230
3. Support households, especially families and seniors	365	480	845
4. Stimulate investment by reducing the corporate tax burden	330	729	1 059
5. Prepare Québec for economic recovery	261	585	846
TOTAL	**6 803**	**8 204**	**15 008**

Note: Since figures are rounded, they may not add up to the totals shown.
1 Including the cash resources associated with the measures presented in Information Bulletins 2009-4, 2009-8 and 2010-3 and the cash resources associated with the measures in the 2010-2011 Budget aimed at solidifying recovery.

Financial impact of the measures in the 2010-2011 Budget
(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
1. SOLIDIFYING RECOVERY			
1.1 Continuation of the action plan			
Plan Emploi Métropole	– 10.0	– 10.0	—
Support for the forest industry			
– Extension of the refundable tax credit for the construction and major repair of public access roads and bridges in forest areas	—	– 100.0	– 87.0
– Financing for the production of seedlings	– 25.6	—	—
– Extension of the silvicultural investment program	– 14.9	—	—
– Protecting forests	– 10.0	—	—
Gaspésie - Îles-de-la-Madeleine development strategy	– 6.0	– 6.0	– 6.0
End of investments by the $500-million emergency fund, Fonds Élan d'entreprises[1]	11.0	11.0	11.0
Subtotal	– 55.5	– 105.0	– 82.0

Financial impact of the measures in the 2010-2011 Budget (continued)

(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
1.2 Modern, high-quality infrastructure			
Extensive sports infrastructure			
Sports and Physical Activity Development Fund	– 19.0	– 19.0	– 19.0
Better infrastructure funding			
Increase of 1 cent per litre in the fuel tax on April 1, of each year, from 2010 to 2013	120.0	240.0	360.0
Subtotal	**101.0**	**221.0**	**341.0**
Subtotal	**45.5**	**116.0**	**259.0**
2. BALANCING PUBLIC FINANCES TO PROTECT OUR VALUES			
2.1 Further efforts to control spending of public bodies			
Hydro-Québec	25.0	100.0	150.0
Loto-Québec	5.0	25.0	40.0
Société des alcools du Québec	5.0	25.0	40.0
Other government organizations	45.0	90.0	135.0
Subtotal	**80.0**	**240.0**	**365.0**
2.2 Collecting all government revenues			
New initiatives to fight tax evasion and avoidance	– 30.0	– 35.0	– 40.0
Additional revenue thanks to the creation of the Agence du revenu du Québec and to new initiatives to fight tax evasion and avoidance	120.0	255.0	275.0
Subtotal	**90.0**	**220.0**	**235.0**
2.3 Increasing our revenues to ensure funding for public services			
Additional 1% rise in the QST on January 1, 2012	—	400.0	1 500.0
Improvement to the QST rebate regarding new residential units	– 8.0	– 35.0	– 40.0
Temporary increase in the compensatory tax on financial institutions	112.0	115.0	120.0
Reserve for the evaluation of the cost of public services	– 1.5	—	—
Revision of the mining duties regime	32.0	39.0	57.0
Subtotal	**134.5**	**519.0**	**1 637.0**

Financial impact of the measures in the 2010-2011 Budget (continued)

(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
2.4 Fund for financing health-care institutions			
Introduction of a health contribution as of July 1, 2010	180.0	575.0	945.0
Additional funding for health-care institutions	– 180.0	– 575.0	– 995.0
Subtotal	—	—	**– 50.0**
2.5 Maintaining our social safety net			
Compensation for tax increases			
New solidarity tax credit (net impact on financial framework)	—	—	– 260.0
Plan to combat poverty			
Fonds québécois d'initiatives sociales	– 7.0	– 12.0	– 25.0
Housing investments			
- Construction of 3 000 social housing units	—	—	– 8.3
- Construction of 340 dwellings in Nunavik	– 0.4	– 1.5	– 2.6
- Encouraging the implementation of projects outside large cities	—	– 0.1	– 0.5
- Additional subsidy in remote regions and small municipalities	—	—	– 0.1
- Additional assistance to promote land occupancy	—	– 0.1	– 0.4
Seniors			
- Enhancement of the refundable tax credit for home support for elderly persons	– 5.0	– 5.0	– 5.0
- Enhancement of the program Soutien aux initiatives visant le respect des aînés (SIRA)	– 4.0	– 4.0	– 4.0
Subtotal	**– 16.4**	**– 22.7**	**– 305.9**
Subtotal	**288.1**	**956.3**	**1 881.1**

Financial impact of the measures in the 2010-2011 Budget (continued)

(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
3. LIBERATING THE AMBITIONS OF QUEBECERS			
3.1 Meeting the demographic challenge			
Increasing participation in the labour market			
Commission nationale sur la participation au marché du travail	– 0.5	– 0.5	—
3.2 Levers to improve our performance			
Education			
Vocational and technical training that meets the needs of the work environment	– 5.0	– 15.0	– 15.0
A creative and innovative economy			
Updating and extension for three years of the Québec Research and Innovation Strategy (QRIS)			
– Pursuing initiatives in research and innovation	– 115.4	– 171.4	– 173.8
– Catalyst projects			
— Green aircraft	– 10.0	– 20.0	– 20.0
— Green chemistry	– 10.0	– 10.0	– 10.0
A competitive business environment			
Additional support for exporter SMEs	– 2.3	– 4.8	– 4.9
$75-million investment fund to support the next generation of farmers[1]	– 0.2	– 0.4	– 0.6
Croissance Québec Techno	– 0.6	– 0.6	– 0.6
Support for small-scale producers of alcoholic beverages	– 0.1	– 0.1	– 0.2
Youth			
Funding of the Office Québec-Monde pour la jeunesse	– 1.5	—	—
Subtotal	**– 145.1**	**– 222.3**	**– 225.1**
3.3 Montréal, an essential component in balanced development			
Support for the economic development of Montréal and Québec City	—	—	– 42.0
Positioning Montréal as a strong financial centre			
Reform of tax assistance for international financial centres (IFCs)	– 2.3	– 7.2	– 4.5
Creation of a round table for the development and advancement of the financial sector	– 0.2	– 0.2	– 0.2
Subtotal	**– 2.5**	**– 7.4**	**– 46.7**

Financial impact of the measures in the 2010-2011 Budget (continued)

(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
3.4 Building a green economy			
Industrial policy for the development of an electric vehicle sector	—	—	—
– Developing an electric bus in Québec	– 8.0	– 10.0	– 12.0
Fostering a "green shift" in the heavy vehicle fleet			
– Increase from 40% to 60% in the capital cost allowance rate for trucks and tractors used for hauling freight	– 1.7	– 3.1	– 3.7
– Additional deduction of 85% of the capital cost allowance for freight vehicles fuelled by liquefied natural gas, acquired before 2016	– 0.1	– 0.6	– 1.2
Accelerated capital cost allowance for the production of clean energy	—	—	– 0.1
Encouraging the marketing of products that have obtained carbon footprint certification	– 3.0	– 6.0	– 13.0
Financing the creation of a data bank on product life cycles	– 0.5	– 0.5	– 0.5
Extending and improving the ClimatSol program	– 2.0	– 2.0	– 2.0
Subtotal	**– 15.3**	**– 24.2**	**– 32.4**
3.5 Sustainable and responsible management of our resources			
Initiatives to deploy the Northern Plan			
– Development and implementation of the Northern Plan	– 6.0	– 6.0	– 6.0
– Reforestation of Northern Québec	– 10.0	– 4.0	– 4.0
– Support for tourism development in Northern Québec	– 2.0	– 2.0	– 2.0
– Continuation of the creation of five Québec national parks	– 2.5	– 2.5	– 2.5
– Enhanced environmental and biological knowledge of the Northern Plan territory	– 2.5	– 2.5	– 2.5
Introduction of a water royalty	2.0	4.5	4.5
Temporary assistance for wind power projects	– 15.0	– 15.0	—
Subtotal	**– 35.9**	**– 27.5**	**– 6.5**

Financial impact of the measures in the 2010-2011 Budget (continued)

(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
3.6 A dynamic culture			
Promotion of artists on the world stage	– 3.0	– 3.0	– 3.0
Additional contribution for the Société de développement des entreprises culturelles[1]	– 0.5	– 0.5	– 0.5
Support for the Orchestre symphonique de Montréal and cultural organizations	– 10.0	– 8.5	– 8.5
Support for the Institut national de l'image et du son	– 1.0	– 1.0	– 1.0
Conversion of the Wilder Building to cultural uses	—	—	—
Improvement to the tax credit for film dubbing	– 0.3	– 0.5	– 0.5
Broadening of the tax credit for the production of multimedia titles			
– Convergence of the video game and digital animation industries	– 1.0	– 2.0	– 2.0
– Enhancement of assistance for video games that are already commercialized	– 0.5	– 1.0	– 1.0
Subtotal	**– 16.3**	**– 16.5**	**– 16.5**
Subtotal	**– 215.7**	**– 294.4**	**– 329.3**

Financial impact of the measures in the 2010-2011 Budget (continued)

(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
4. OTHER MEASURES			
Accelerated capital cost allowance for satellite and cable set-top boxes	– 2.0	– 2.0	– 2.0
Change in the definition of taxable Québec property to foster venture capital investments	– 3.3	– 2.8	– 2.8
Employee stock options	13.5	15.5	16.0
Rollover of the proceeds of an RRSP to an RDSP	—	– 0.6	– 0.6
Social security benefits received from the United States	– 0.3	– 0.3	– 0.3
Société des établissements de plein air du Québec			
Investments to develop the territories and increase the accommodation capacity[1]	– 0.4	– 0.8	– 0.8
Subtotal	**7.5**	**9.0**	**9.5**
5. FUNDING FOR THE SQRI ALREADY EARMARKED IN THE GOVERNMENT'S EXPENDITURE BUDGET	**115.4**	**128.4**	**129.8**
TOTAL IMPACT OF MEASURES IN THE 2010-2011 BUDGET	**240.8**	**915.3**	**1 950.1**

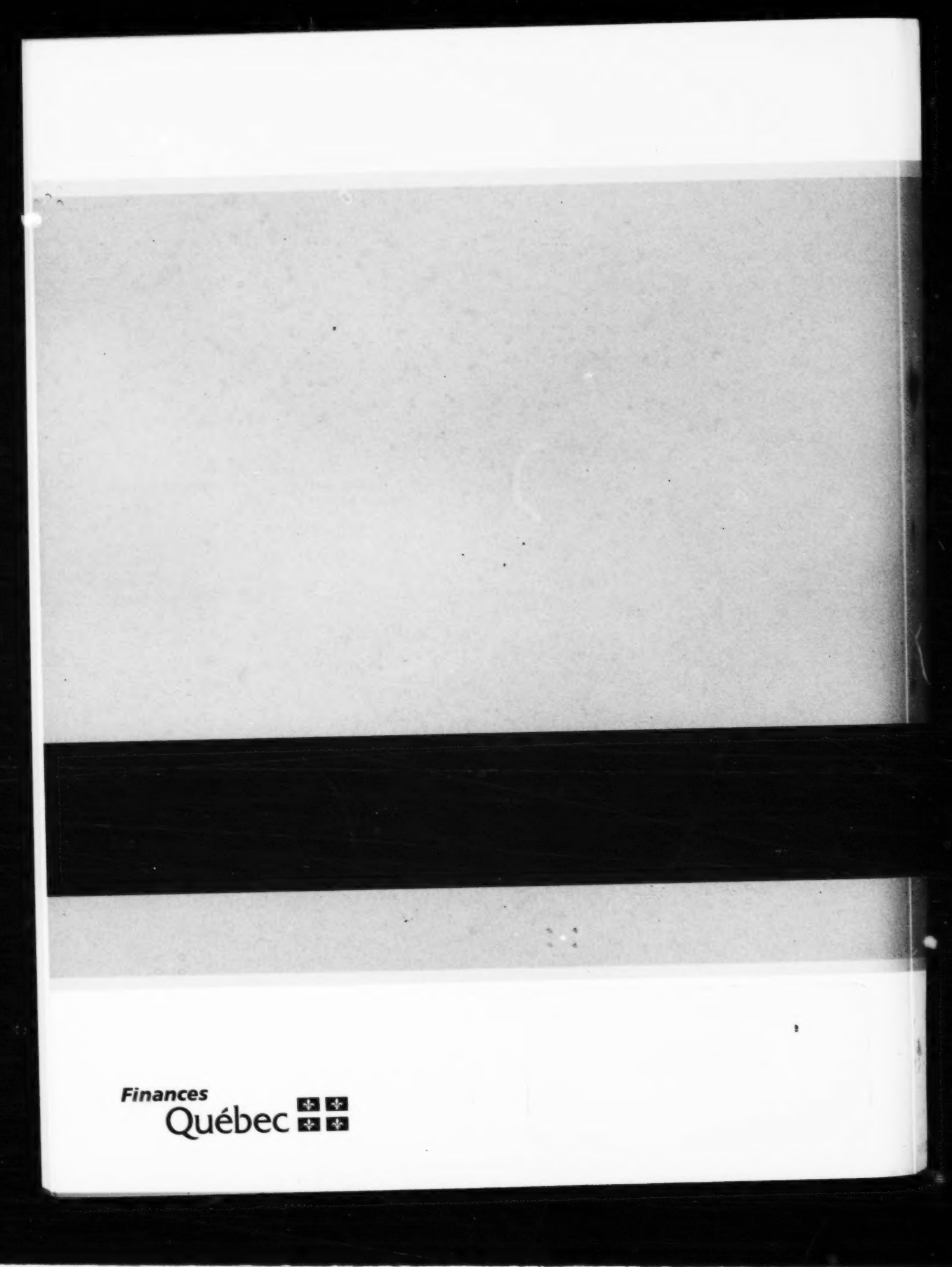
Note: A negative entry indicates a cost for the government.

1 Impact on the government's debt service.

Solidarity tax credit

(millions of dollars)

	Financial impact for the government		
	2010-2011	2011-2012	2012-2013
Solidarity tax credit	—	**– 1 045.0**	**– 1 350.0**
Replaces and improves:			
- Property tax refund	—	325.0	340.0
- Refundable QST credit	—	467.0	497.0
- Refundable tax credit for individuals living in a northern village	—	3.0	3.0
Additional compensation for tax increases	—	**– 250.0**	**– 510.0**
- Increase in the refundable QST credit announced in the 2009-2010 Budget	—	250.0	250.0
NET IMPACT ON FINANCIAL FRAMEWORK	—	—	**– 260.0**



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